

# NAVAL POSTGRADUATE SCHOOL

## Monterey, California



### THESIS

**A MODEL IN DEFENSE REUTILIZATION:  
PRESIDIO OF MONTEREY AND FORT ORD**

by

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December, 1995

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A MODEL IN DEFENSE REUTILIZATION: PRESIDIO OF MONTEREY AND  
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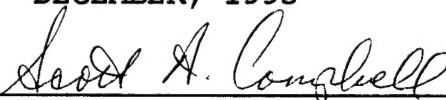
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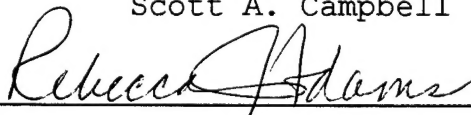
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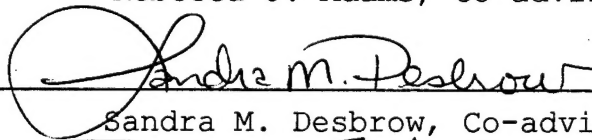


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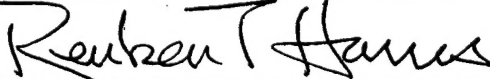
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## ABSTRACT

The Base Realignment and Closure (BRAC) process has impacted people and cities throughout the United States. Many municipalities are directly affected by base closures that occur within their borders. Of major concern to those cities and states is the economic impact a base closure will have on their local economies. In an effort to prevent bases from being closed many city and state officials and private citizens have turned to Federal officials for assistance. The Monterey Peninsula is one of the communities affected by the BRAC process, with the closure of Fort Ord and the recommended closure of the Defense Language Institute (DLI). The primary reason DLI was slated for closure by BRAC was excessive Base Operation Support (BASEOPS) Costs. The City of Monterey adopted a unique alternative approach to prevent the closure of DLI. Monterey city officials developed a proposal to provide these costly BASEOPS services with the existing City infrastructure and presented it to the Department of Defense (DOD). This thesis will analyze this proposal, assess its feasibility and propose other contractual alternatives to reduce BASEOPS costs. The objective of the research is to present and evaluate possible alternatives for acquiring BASEOPS services and to recommend the most effective method to control BASEOPS costs. Perhaps this information can be used to prepare for future BRAC-type assessments of DLI to prevent its closure.



## TABLE OF CONTENTS

I. INTRODUCTION . . . . .	1
A. BACKGROUND . . . . .	1
B. OBJECTIVES . . . . .	4
C. THE RESEARCH QUESTIONS . . . . .	5
D. SCOPE . . . . .	6
E. LIMITATIONS . . . . .	7
1. Data Classification . . . . .	7
2. Time line . . . . .	7
3. Proprietary Information . . . . .	7
F. LITERARY REVIEW AND METHODOLOGY . . . . .	8
G. DEFINITIONS AND ABBREVIATIONS . . . . .	9
H. PREVIEW OF CHAPTERS . . . . .	10
II. BACKGROUND . . . . .	11
A. BRAC I . . . . .	11
B. BRAC II . . . . .	12
C. APPLICABLE LEGISLATION . . . . .	14
D. THE ARMY'S OBJECTIVE FOR BRAC 91 . . . . .	15
E. BASING STRATEGY (ARMY) . . . . .	16
F. TRAINING OBJECTIVES . . . . .	18
G. THE BRAC PROCESS (ARMY) . . . . .	19
1. Phase I (Military Value) . . . . .	20
2. Phase II (Develop Recommendation & Alternatives) . . . . .	23
H. FORT ORD . . . . .	28
I. DEFENSE LANGUAGE INSTITUTE/PRESIDIO OF MONTEREY .	31
J. CITY OF MONTEREY . . . . .	31
III. ECONOMIC IMPACT . . . . .	33
A. BACKGROUND . . . . .	33
B. THE GOVERNMENT ESTIMATE . . . . .	34

1. Determination of Representative Areas . . .	34
2. Jobs and Earning Multipliers . . . . .	35
3. Determination of Military and DOD Civilians	35
4. Allocation of Military Payroll . . . . .	36
5. Estimating Impact of DOD Payroll . . . . .	37
6. Installation Purchases . . . . .	37
7. Total DOD Generated Employment/Earnings . .	38
8. Government Study Limitations . . . . .	38
C. THE CITY ESTIMATE . . . . .	39
1. Jobs and Earning Multipliers . . . . .	40
2. Determination of Military and DOD Civilians	40
3. Allocation of Military Payroll . . . . .	41
4. Estimating Impact of DOD Payroll . . . . .	42
5. Installation Purchases . . . . .	42
6. Total DOD Generated Employment/Earnings . .	42
7. City Study Limitations . . . . .	44
D. SUMMARY . . . . .	45
IV. THE CITY PROPOSAL . . . . .	47
A. BACKGROUND . . . . .	47
1. Specific Legislation . . . . .	47
2. Unsolicited Proposal (Qualification) . . . .	49
B. PROPOSAL . . . . .	51
1. BASEOPS Functions . . . . .	51
2. Costs . . . . .	53
3. Pricing . . . . .	55
4. Limitations . . . . .	57
C. ADDITIONAL ESTIMATED SAVINGS . . . . .	58
D. POLITICS . . . . .	59
E. SUMMARY . . . . .	62
V. ANALYSIS . . . . .	63
A. METHODOLOGY . . . . .	63

1. Problem Statement . . . . .	63
2. Background . . . . .	63
3. Facts bearing on the Problem . . . . .	64
4. Assumptions . . . . .	65
5. Courses of Action (COA) . . . . .	66
6. Develop Criteria . . . . .	66
7. Analysis . . . . .	69
8. Comparison . . . . .	70
9. Weighted Evaluation . . . . .	72
B. CONCLUSION . . . . .	76
VI. CONCLUSION . . . . .	79
A. RECOMMENDATIONS . . . . .	79
B. ANSWERING THE RESEARCH QUESTIONS . . . . .	79
C. AREAS FOR FUTURE STUDY . . . . .	82
D. CONCLUSION . . . . .	82
REFERENCES . . . . .	85
INITIAL DISTRIBUTION LIST . . . . .	87



## LIST OF FIGURES

1	BRAC Evaluation Process . . . . .	21
2	DOD Measures of Merit . . . . .	23
3	BRAC Screening Process . . . . .	25





## LIST OF TABLES

1	Metropolitan Statistical Area (Population) . . . . .	35
2	Government Estimated Economic Impact Monterey MSA . . . .	39
3	Indirect Job Loss Estimate Comparison (DLI Only) . . . .	41
4	Direct Economic Impact of DLI Closure . . . . .	44
5	Cumulative Regional Impact of Fort Ord & DLI Closure . .	45
6	Comparison of BASEOPS Responsibilities . . . . .	52
7	BASEOPS Cost Comparison . . . . .	54
8	Pricing Strategy Example . . . . .	56
9	Summary of Estimated One Time Closure Costs . . . . .	58
10	Summary of Estimated One Time Construction Costs . . . .	59
11	Relative Value Decision Matrix . . . . .	72
12	Weighted Value Decision Matrix . . . . .	74
13	Weighted Value Decision Matrix (Percentage of BASEOPS Most Important Criterion) . . . . .	75
14	Weighted Value Decision Matrix (Oversight Most Important Criterion) . . . . .	75
15	Weighted Value Decision Matrix (Innovation Most Important Criterion) . . . . .	76
16	Weighted Value Decision Matrix (Risk Most Important Criterion) . . . . .	76



## I. INTRODUCTION

### A. BACKGROUND

The initiation of the Base Realignment and Closure Commission (BRAC) process in the 1980's signaled a change in the Army's overall basing strategy. Consolidation of activities with similar or supporting missions to reduce base support costs was the objective. The BRAC process has continued to close or reduce the operation of military bases both in and outside the Continental United States. It was not until 1990 that the BRAC commission brought the reality of a shrinking defense budget to Monterey, California, with its initial direction to close Fort Ord and then a subsequent change, allowing a small enclave to remain. These events signaled a possible end to the additional economic prosperity brought to Monterey and its surrounding communities by soldiers, sailors and their families.

The recent closure of Fort Ord has left the Monterey Peninsula with only two small military installations: the Naval Postgraduate School (NPS) and the Defense Language Institute (DLI). It is necessary to understand that DLI is located, as a tenant command, on the Presidio of Monterey (POM) military installation. Although a reduced military infrastructure still exists at Fort Ord, its primary function is to support both the Naval Postgraduate School and Defense Language Institute. As currently staffed and organized, the Naval School is self-sufficient for base operations, personnel support and other necessary support functions. The Defense Language Institute, however, had been a tenant command of Fort Ord since its activation at the Presidio of Monterey in 1946 (Landis, 1993). As Fort Ord

began to disappear so did DLI's base operations support. It was incumbent upon the Army to develop new plans, programs and initiatives to continue the language school's mission. DLI currently receives its base operations support through several vehicles: Base Operations Support (BOS) contracts, interservice support agreements and the use of Army personnel (Landis, 1993). The cost of Base Operations Support (BASEOPS) services is estimated at approximately \$12 million (Cohn, 1993) which could be considered excessive for such a small installation.

Consequently, during the past several years the Defense Language Institute has been a target for the BRAC. The high cost of living in the Monterey area, the excessive cost of base operations support and the lack of any major military installation to help reduce costs has made DLI a prime candidate for closure in 1995. The threat of moving the school to the Army Intelligence Center at Fort Huachuca, Arizona, appeared to be the logical progression of events under the current basing policy. In 1995, as in past years, the city, state and federal representatives of the Monterey County area have mobilized to prevent DLI's closure.

In 1993, as part of its endeavor to combat the closure of DLI, the City of Monterey petitioned the Department of Defense (DOD), under Section 2924 of Public Law (PL) 101-510, Base Realignment and Closure Act. This section of the law required the Secretary of Defense to give special consideration and emphasis to any official statement from a unit of general local government adjacent to or within a military installation considered for closure or realignment. Subsequent to its 1993 request, the City had developed a proposal for the Department of the Army. The proposal

offered City resources and expertise to reduce BASEOPS costs at DLI, thus reducing the installation's appeal to the BRAC Commission. The basic idea behind the proposal was well received by the Department of the Army, Deputy Chief of Staff for Installations and the Secretary of Defense (Cohn, 1994). However, after additional consideration the City decided to amend the proposal changing the basic premise of the agreement from a BASEOPS support contract to a real estate transaction.

The first proposal, authored in 1993, offered a fixed-price contract to the Department of the Army, for the City to provide certain BASEOPS services at a cost of \$2.6 million (City of Monterey, 1993). The assumption by the City was that this contract for \$2.6 million coupled with a remaining cost of \$5.8 million that the Army would pay to contractors per year, would reduce the overall cost of DLI BASEOPS from the estimated \$12 million to roughly \$8.4 million. This contract, if accepted would provide the Department of the Army with an immediate savings of \$4.6 million.

The second proposal, authored in 1994, introduced a new aspect to the City's idea of burden sharing to keep DLI in Monterey. In place of the initially planned fixed-price contract for BASEOPS a lease-lease back agreement was suggested. Under this plan the DOD would lease all the land that encompasses the Presidio of Monterey to the City. The land and buildings necessary to operate DLI would then be leased back to the Department of the Army at a cost of \$2.6 million. The City, as landlord, would then perform the same BASEOPS services listed in the initial fixed price contract as consideration for the lease. The lease-lease back

agreement could be executed under the authority of 10 United States Code (U.S.C.) 2667 (City of Monterey, 1994). Under this plan the City would make up the difference in lease price by leasing unused portions of the Presidio to other activities complementary to the DLI mission. One initiative may be led by a consortium of the Monterey Institute for International Studies and the California State University at Monterey Bay to provide language training for audiences not directly served by DLI. Any additional cost that cannot be recovered through additional leasing would be absorbed by the City. This type of arrangement would remove all contract oversight and audit requirements normally associated with Federal Government Contracting.

## **B. OBJECTIVES**

This thesis will focus on the lease-lease back proposal made by the City to keep the Defense Language Institute in Monterey. It will examine the proposal in detail and make a recommendation as to its implementation, partial execution or rejection. Additionally, the study will examine the BRAC process, why DLI is at risk of closure, the potential economic impact if DLI were closed, the political issues that have surfaced as a result of the Fort Ord closure and the unique aspects of the City of Monterey which may or may not assist in the DLI mission. The lease-lease back proposal is a Government reinvention initiative developed by the City of Monterey as a defensive strategy to counter the proposed relocation of DLI and any further negative economic impact. The BRAC process has significantly impacted the Monterey County area, and generated numerous studies on how dependent the American Economy has become on the defense

infrastructure. The proposal may become a Government reinvention model that could be utilized by other municipalities containing small installations, such as National Guard Armories or Arsenals.

### **C. THE RESEARCH QUESTIONS**

The primary research question of this thesis is: "What does the City of Monterey's proposal offer to DOD in cost savings for operating and maintaining the Presidio of Monterey and the Defense Language Institute?" The subsidiary research questions to be addressed are:

1. What is the current DLI budget for BASEOPS?
2. What are the current BASEOPS costs incurred at DLI?
3. What are the unique qualities of the City of Monterey which may or may not assist in the DLI Mission?
4. What economies of scale exist as a result of the proposal?
5. What type of lease would be used if the City proposal is accepted?
6. What would be the disposition of surplus/deficit revenues?
7. What pricing strategy was used in developing the proposal?



#### D. SCOPE

In order to provide a lucid and logical recommendation regarding the City of Monterey's proposal this study will examine several issues as they relate to the possible closure of DLI. The review of BRAC Commission reports will provide background on how DLI came to be at risk for closure and the methodologies used to recommend DLI's disposition. Economic impact studies will also be utilized to assess the possible monetary impact on the Monterey County area should DLI close. The study will examine the specific environment the City of Monterey provides to DLI in accomplishing its mission of teaching foreign language and foreign area studies. A thorough review and price analysis of the proposal will be conducted to assess its suitability to Department of Defense needs. A cost comparison between the current DLI budget and the projected costs listed within the City's proposed cost estimate will be made to assess any real savings that can be attained via this initiative. As there may be options other than the City's proposal, the study will provide several alternatives to the current initiative and compare these options to the current lease-lease back alternative. Finally an examination of political issues that may affect the proposal will be identified because they have a direct impact on whether DLI will survive the BRAC process and whether the City's proposal will be approved or rejected.

## **E. LIMITATIONS**

Various obstacles were encountered that limit this study. These limiting factors are discussed in the following subsections:

### **1. Data Classification**

The BRAC process is politically sensitive. Much of the most current data, although complete, were unavailable due to security classification or refusal by the agency involved to provide it for open research. The BRAC 95 report and recommendations to the Secretary of Defense were complete at the time of this study. Although the actual recommendations were published in numerous newspapers and periodicals, the detailed reports and raw data were not yet available as public information.

### **2. Time line**

The BRAC process requires the Secretary of Defense, after reviewing the BRAC Commission recommendations, to make his own recommendations to the President of the United States. Once the Secretary's recommendations are approved by the President, the closure list becomes final. This time line may result in an actual decision to close or retain DLI and to accept or reject the City of Monterey proposal before this study is completed.

### **3. Proprietary Information**

The City of Monterey's most current proposal was unavailable for the study due to the inclusion of proprietary information on actual costs currently charged within the City's Public Works Department. The City Government did provide the initial proposal for evaluation within this study. Additionally, release of the current

proposal was restricted due to competition with another proposal submitted by municipalities near Fort Huachuca, Arizona. Since Fort Huachuca was the proposed site for relocating DLI, the City of Monterey was unwilling to risk releasing the data.

#### **F. LITERARY REVIEW AND METHODOLOGY**

This research is not based on previous studies of the Monterey Proposal. Significant analyses have been completed on the effects of the Base Realignment and Closure Commission's decisions and actions. The work of the Commission is continuous, focusing on specific installations or geographic areas. Currently, there are few studies on the effects of DLI closure, because the Commission's major concern in the Monterey County area was the study of Fort Ord. Several of the reports used as secondary data within the study, address BRAC effects in a general sense and are not specifically linked to DLI or Fort Ord. DLI and its infrastructure have been included within BRAC reports as an afterthought, since its operating budget was significantly smaller than Fort Ord's. However, these studies provide a basis for assumptions and recommendations on the disposition of DLI.

In addition to BRAC reports and recommendations, this study will also examine a significant amount of newly developed raw data, generated specifically on DLI and its possible closure. A large amount of the new raw data were developed from studies commissioned and funded by the City of Monterey. Logistics Management Institute (LMI) reports are also referenced. The data presented by LMI are a result of studies commissioned and funded by the Federal Government.

Interviews were conducted with City of Monterey Officials and Federal Government Officials to further qualify the data presented.

The BRAC process, though ostensibly focused on cost savings, is political, and as such the effects of political policies, current at the time of this study are directly pertinent to the problem and will also be reviewed. Their effect on possible outcomes of the DLI situation will also be addressed.

#### **G. DEFINITIONS AND ABBREVIATIONS**

BASEOPS:	Base Operations Support
BRAC:	Base Realignment and Closure
DOA:	Department of the Army
DEH:	Directorate of Engineering and Housing
DLI:	Defense Language Institute
DOC:	Directorate of Contracting
DOD:	Department of Defense
FORSCOM:	Forces Command
ISSA:	Interservice Support Agreement
NPS:	Naval Postgraduate School
POM:	Presidio of Monterey
TRADOC:	Training and Doctrine Command

## **H. PREVIEW OF CHAPTERS**

A description of the chapters is provided below. Chapter II provides background on the BRAC method for evaluating bases for closure and a brief history of the BRAC process. It also provides an overview of the City of Monterey, the closure of Fort Ord and a description of the DLI mission and organization. Chapter III will discuss the economic impact on the Monterey County area due to the closure of Fort Ord and the anticipated additional impact should DLI be closed. Chapter IV presents the City of Monterey's Proposal. Chapter V analyzes the proposal, its pricing strategy and provides some possible alternatives to the City of Monterey's solution. It will also evaluate each alternative based on specific criteria using a standard decision matrix format. Chapter VI will state the conclusions, recommendations and address areas of further study.

## **II. BACKGROUND**

The Army's Base Realignment and Closure process can be classified in four distinct rounds or stages. Each iteration builds upon its predecessor with the intent of molding an efficient, modern base structure that will support the proposed force structure as the Army transitions into the next century. The Army refers to these rounds as Base Realignment and Closure (BRAC) I, II, III, and BRAC 91 (Dept Of the Army, 1991). The legal foundation for the BRAC process is found in PL 101-510, the National Defense Authorization Act for FY 1991. Certain limitations that caused the BRAC process to be amended are found in 10 U.S.C. 2687. To understand the plans being presented, it is necessary to review the history of the BRAC process, the current Army objectives for BRAC, the legislation that applies to the process and the methodology used by the Commission to determine base closures.

### **A. BRAC I**

BRAC I refers to the realignments and closures resulting from the 1988 Commission as codified in PL 100-526. The Commission's recommendations, as they affected the Army, required the closure of 76 installations (including 53 stand-alone housing sites) and the realignment of 57 other Army installations to be completed by 30 September 1995. The Commission's recommendations were based on requirements as projected in 1988 and assumed that the force structure would retain the size and configuration outlined in currently approved plans (Dept of the Army, 1991).

Although that assumption has not proven to be the case, the Commission's recommendations implemented a streamlining of the installation structure utilized by the Military Services. The recommendations do not complicate subsequent realignments and closures because the Commission focused on the installations themselves and their utility and not on force structure. Their mission was to clean-up a decade long delay in realigning military installations whose usefulness could not be sustained. The Commission's recommendations essentially provided the Military Services a clean baseline from which to restructure the installation needs of what is forecasted to be dramatically altered troop levels (Dept of the Army, 1991).

#### **B. BRAC II**

BRAC II refers to the Service Secretaries' proposals for additional realignments and closures as announced by Secretary of Defense Cheney on January 29, 1990. While BRAC I essentially rationalized the Military Services' installation structure to align it with known requirements in 1988, BRAC II reflected the Army's initial transition into a smaller force as reflected in the Army's FY 1991 budget submission. It needs to be emphasized that BRAC II did not reflect and was not intended to reflect the dramatic escalation in the pace of change in Eastern Europe which occurred following the fall of the Berlin Wall on November 9, 1989. The FY 1991 budget and BRAC II were the mid-term transitions into the smaller force reflected in full scope in the FY 1992/1993 budget. BRAC II reflected a reduction of the Army's force from a 5-corps, 28-division force to a 4-corps, 23-division force. BRAC II also did not include any

Outside the Continental United States (OCONUS) realignments or closures because of the uncertainties then associated with the ongoing Conventional Forces Europe (CFE) Treaty negotiations. As a transitional initiative, BRAC II proposed closure or layaway of 12 additional Army installations and recommended realignments which could have affected up to 134 other Army activities.

The Army is no longer pursuing implementation of six of the original BRAC II proposals. This is because PL 101-510, the National Defense Authorization Act for FY 1991, restricted the Department's authority to continue those base realignment and closure proposals where the thresholds established by 10 U.S.C. 2687 are breached (Dept of the Army, 1991).

For the next five years, the Defense Base Closure and Realignment Act of 1990, a part of PL 101-510, is now the exclusive base closure and realignment process for any closure or realignment that would have triggered the provisions of 10 U.S.C. 2687. These new procedures halted the Army's studies associated with BRAC II proposals to close Fort Ord, California; Fort McClellan, Alabama; and the Sacramento Army Depot, California. Other studies discontinued included the BRAC II proposals to eliminate the Troop Support Command (TROSCOM), Missouri; realign the Red River Army Depot, Texas; and place Fort Gillem, Georgia, in a semi-active status (Dept of the Army, 1991).

At the time that the BRAC II proposals were announced, Congress expressed concern that the proposed installation closures and realignments did not include OCONUS installations. OCONUS installations were not included in BRAC II because at that time CFE Treaty negotiations were



expected to cover European force structure. Subsequently, force structure was removed from the Treaty, which now only covers the reduction of certain types of military equipment (Dept of the Army, 1991).

As a result, on September 18, 1990, Secretary Cheney announced the draw down of forces at 150 overseas military sites, in 44 locations, in ten countries, ranging from small installations to major bases. For the Army, the announcement included closure or reduction at 113 Army facilities overseas (99 sites in Germany, 2 in Greece and 12 in Korea). These OCONUS announcements subsequently became known as BRAC III and follow-on OCONUS closures and realignments will continue with this terminology, e.g., BRAC III (round two), BRAC III (round three), etc (Dept of the Army, 1991).

Just as BRAC II was the initial transition to a smaller force in CONUS, BRAC III was the initial transition to a smaller force overseas. Additional OCONUS closures, beyond the original September 1990 announcement, may occur to reflect the continued draw down of military forces overseas.

### **C. APPLICABLE LEGISLATION**

Public Law 101-510, the National Defense Authorization Act for FY 1991, established a new process for DOD Base Realignment and Closure actions which will govern all future DOD recommendations through the year 1995. Implementation of the first phase of this new process is called BRAC 91 (Dept of the Army, 1991).

The new process applies to closures or realignments that trip the thresholds of 10 U.S.C. 2687. These thresholds are reached when the installation to be closed is authorized to employ at least 300 direct hire, permanent civilian

personnel, or where a proposed realignment of an installation that is authorized to employ at least 300 civilians would be reduced by more than 1000, or by more than 50 percent (whichever is less) in the number of authorized civilian employees. The new Act directed the formation of an independent Defense Base Realignment and Closure Commission to review base realignment and closure recommendations made by DOD during the next five years. The Service's recommendations are to be based on a force structure plan submitted as part of the FY 1992/94/96 budgets as well as selection criteria which must be published in the Federal Register, receive public comment and be submitted for Congressional review. The legislation requires the Commission to convene only in calendar years 1991, 1993 and 1995 (hence, the terminology of BRAC 91, BRAC 93, BRAC 95) to assess and evaluate base realignment and closure recommendations from all Services and to forward its recommendations to the President and eventually to Congress for approval. The Commission will conduct public hearings on the DOD recommendations and may make revisions if the recommendations deviate from the submitted force structure plan and final criteria (Dept of the Army, 1991).

The new legislation does not affect the execution of base closures mandated under PL 100-526 BRAC I, FY 1991 BRAC II proposals that do not exceed 10 U.S.C. 2687 thresholds, or BRAC III proposals which occur outside the continental United States (Dept of the Army, 1991).

#### **D. THE ARMY'S OBJECTIVE FOR BRAC 91**

The Army's intent was to reduce and streamline its basing structure to reflect reductions in force structure

and management improvements, while ensuring the capability to expand should future threats require an increase in force structure. In order to meet those goals in the most efficient manner the Army decided to:

- Review all Army installations with respect to the needs of projected force structure.
- Close unneeded installations and consolidate operations to generate long term savings and operational efficiency.
- Pursue Consolidation, realignment, and closure when it made military and economic sense to do so.
- Attempt to minimize hardships on all involved (e.g. soldiers, families, civilian employees, and host communities) by pursuing ways to ease the difficulties that accompany closures and realignments (Dept of the Army, 1991).

#### **E. BASING STRATEGY (ARMY)**

The foundation of the Army's basing strategy was to station units on high quality installations and match the best available installations to force requirements. However, the Army anticipated fewer installations in the inventory (Dept of the Army, 1991).

The number of small, single purpose installations must be reduced and those remaining would house organizations with highly specific missions. Installations which did not adequately support their current missions or had little potential to accommodate future missions were considered for closure or use by other activities. The Army actively sought to consolidate bases and functions in the face of decreasing resources, urban encroachment and a smaller force structure (Dept of the Army, 1991).

The national strategy molded the Army into a smaller,

readily deployable force, primarily based in Continental United States (CONUS). Stationing wisely on quality installations would provide resources to train a combat ready force which could be generated, projected and sustained to support the national strategy. The BRAC process, and the Army's objectives for the process, made it clear that fewer bases would be needed.

Events taking place throughout the world had caused fundamental changes in the nation's national strategy. Although the United States would retain global leadership responsibilities, the evolving national strategy dictated that the Army of the 90's be significantly different from that of the 80's. It must be smaller, principally based in CONUS and structured for flexible response to a variety of global contingencies. The Army's principal role, providing land power, would not change; however, the manner in which the Army generates, projects, and sustains forces would continue to evolve. The underlying principle was that strategy drove force structure, which in turn determined stationing. The Army's structure and its stationing vision must reflect the new realities of its evolving role.

In some specific situations installations would be closed or realigned to reflect reductions in, or consolidations of, maintenance or training workload or consolidations and streamlining of support activities. To assist in making these tough decisions, however, the Army was guided by the following principles:

- Maximize readiness with installations capable of generating, projecting and sustaining combat power in support of national military objectives.

- Consolidate into our best, most efficient facilities.
- Maximize quality of life and minimize hardships for our soldiers, their families and civilian employees.
- Provide for appropriate expandability and reversibility to ensure an installation base capable of responding to future force structure requirements.
- Provide for adequate mobilization capability to train and mobilize as called for by various military contingencies.
- Provide for adequate training land to sustain a trained and ready force.
- Consider the costs and savings of proposed realignments and closures.
- Consider the economic impact on communities.
- Consider environmental impacts and restoration costs of proposed realignments and closures (Dept of the Army, 1991).

#### **F. TRAINING OBJECTIVES**

The first objective is to train brigade level units at home station. Installations serving as home stations for maneuver units should have adequate area to support brigade size combined arms maneuver and live fire training. These installations should also possess sufficient real estate to allow rotation of land for environmental regeneration. Additionally, these installations require facilities to link commanders and staffs from battalion through corps for simulation to train the combined arms and service team (Dept of the Army, 1991).

The second objective addresses a major change in institutional training. Schools which provide training focused on branch organization should be reorganized

functionally into war fighting centers. For example, infantry and armor would be trained at a maneuver center, while the maneuver support center would be responsible for engineer, military police and chemical training. These installations should also possess sufficient area for maneuver and live fire training (Dept of the Army, 1991).

The third objective addresses Combat Training Centers (CTCs). The Army will continue to provide at least two-separate CTCs in CONUS; one for light forces and one for heavy forces. These CTCs will be structured to support up to brigade level training. Brigades will rotate through the appropriate center on a schedule which provides a CTC experience for every maneuver brigade and battalion commander. To support the extensive training required at these centers, the Army must ensure adequate land available to allow for sufficient training and rotation for environmental regeneration (Dept of the Army, 1991).

The final training objective addresses stationing and readiness as a function of force package. Each force package is organized with units from the active and reserve components. Units assigned to each package should be stationed in regional proximity to their controlling headquarters. This supports the requirement for each package to train extensively as a team in peace and during mobilization prior to deployment (Dept of the Army, 1991).

#### **G. THE BRAC PROCESS (ARMY)**

The Army utilizes a three phased methodology in determining which installations would be recommended for closure or realignment to the BRAC Commission. A schematic representation is depicted in Figure 1. Phase I consisted of

determining a quantitative military value for each installation based on specific attributes developed by DOD as evaluation criteria. Phase II consisted of developing realignment/closure recommendations and alternative locations for the missions/personnel displaced by closing a base. Phase III encompassed the submission of a recommended list of base closures to the BRAC Commission, providing support, justification and any assistance necessary to explain the recommendations.

Prior to initiating any individual installation evaluation, the Department of the Army developed seven categories to classify each installation. These categories were used to delineate the evaluation process and insure that installations were compared to other installations which had historically performed the same type of mission or performed similar functions. The seven categories were:

- Fighting Installations
- Training Installations
- Command & Control Installations
- Industrial Installations
- Corps of Engineer Divisions/Districts
- Reserve Component Installations
- Other Installations (not evaluated for BRAC)

For the purpose of this study we are only concerned with the first two categories: Fighting Installations (FT. Ord), and Training Installations (Presidio of Monterey/DLI).

#### **1. Phase I (Military Value)**

Phase I consisted of the Army evaluating its installations in quantitative terms according to their

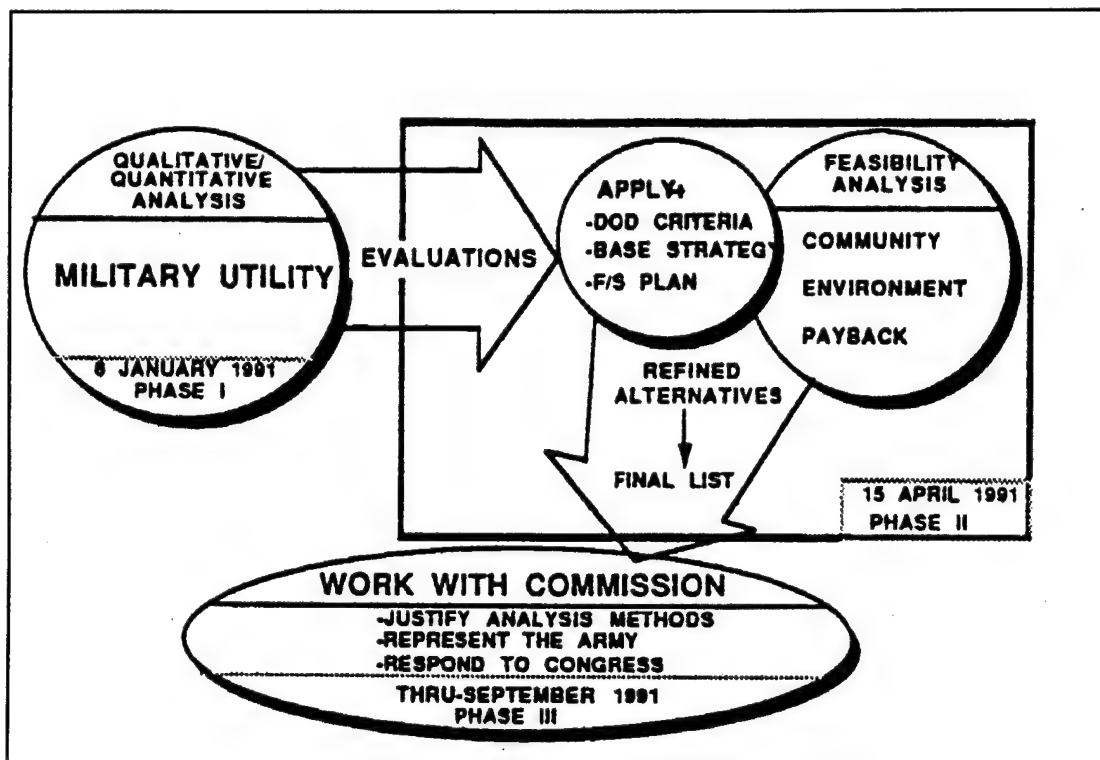


Figure 1. BRAC Evaluation Process

relative military value. The purpose of this phase was to determine the military value of an installation as it related to other installations that had historically performed the same type of mission. This approach would also provide the value of an installation to the entire Army. Each installation within a specific category was measured by a set of specific criteria known as the measures of merit (Dept of the Army, 1991). These measures of merit are listed in Figure 2 and encompass the additional DOD developed criteria shown. These evaluation criteria are extremely broad and similar to those used by the 1988 BRAC Commission (Dept of the Army, 1991). To fully understand the assigned military value, each measure of merit must be adequately



defined.

Mission Essentiality is defined as the ability to house, train and project forces. Mission Suitability is defined as how well the physical characteristics of the installation support the needs of the forces stationed there. Operational Efficiencies, however, were based on each type of installation and defined centrally by the major command (MACOM) having jurisdiction over the installation. For example, FORSCOM developed the operational efficiencies evaluation criteria for all fighting installations while TRADOC developed the criteria for training installations. Expandability was defined as the ability of the installation to expand as necessary. Finally, Quality of Life was defined as the ability of the installation to support the soldier and his/her family (Dept of the Army, 1991).

The measures of merit, defined above, were weighted based on the type of installation being evaluated and by the relative importance of the specific measure to that installation. For example, Expandability is a more important aspect of value to a fighting installation than it is to a training installation and was therefore given more weight when evaluating the fighting installation and less when evaluating a training installation. Generally speaking, the larger, more economical to operate, and modern installations were assessed more favorably. This quantitative appraisal of the specific installation values provided a starting point in the evaluation of the Army's base structure. It did not, however, create a "close this installation first" listing for the Army, but rather provided a logical basis for judging possible closure or realignment opportunities. Although standard evaluation criteria were used at each

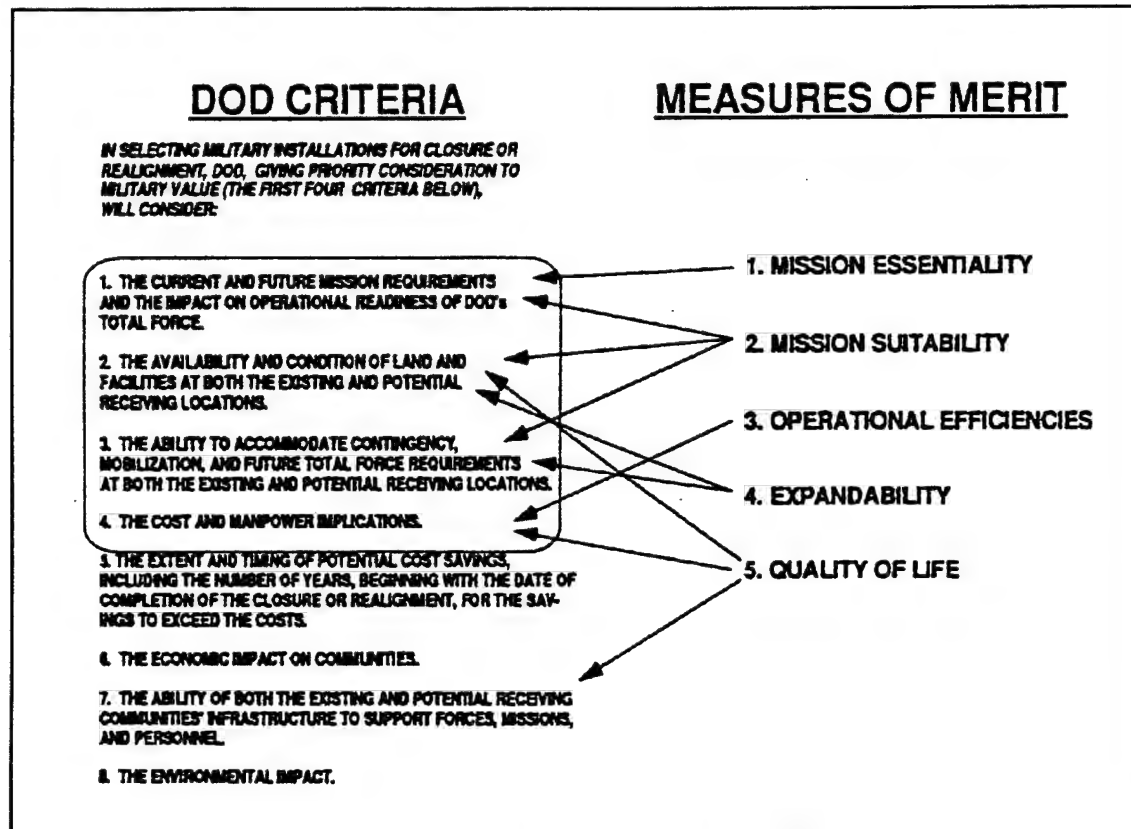


Figure 2. DOD Measures of Merit

location, there were several installation unique considerations that could not be captured using the uniform assessment factors. Therefore these unique capabilities and functions were considered before any decision was made to close or realign an individual base.

## 2. Phase II (Develop Recommendation & Alternatives)

Within Phase II of the evaluation, the Army completed four specific steps: The screening process, development of realignment and closure alternatives, impact assessment of the alternatives and refinement of alternatives.

Upon initiation of Phase II some installations were omitted from further consideration for realignment or closure. A screening process consisting of five steps, was

developed to determine which installations should be studied further as BRAC candidates. Figure 3 shows a simplified diagram of that process (Dept of the Army, 1991). First, if an installation had a high military value it was removed from BRAC consideration. Second, the uniqueness of specific installations was considered. If the installation was the only one in the Army inventory capable of completing a vital mission or was of unique strategic value it was also omitted from further consideration. The third step in the screening process addressed direct and indirect force structure impact on installations. The only installations removed from further BRAC consideration were those not directly or indirectly affected by force structure changes (cuts). The fourth area screened was to determine whether enough data and analysis existed to make a recommendation or if further study was needed before recommending for or against closure or realignment. For example, some of the MACOM Commanders' vision for future operations required additional study to determine whether an installation would be able to fulfill future missions with minimal or no additional construction or BASEOPS support. Additionally, in many cases it was not cost effective for the Army to recommend simultaneous closure of all the bases under consideration. The final step of the screening process examined each installation's capacity by category. A capacity analysis was conducted as part of the screening process. The purpose of the capacity analysis was to match units and missions with specific installations and to determine whether excess capacity existed at the macro level (Dept of the Army, 1991).

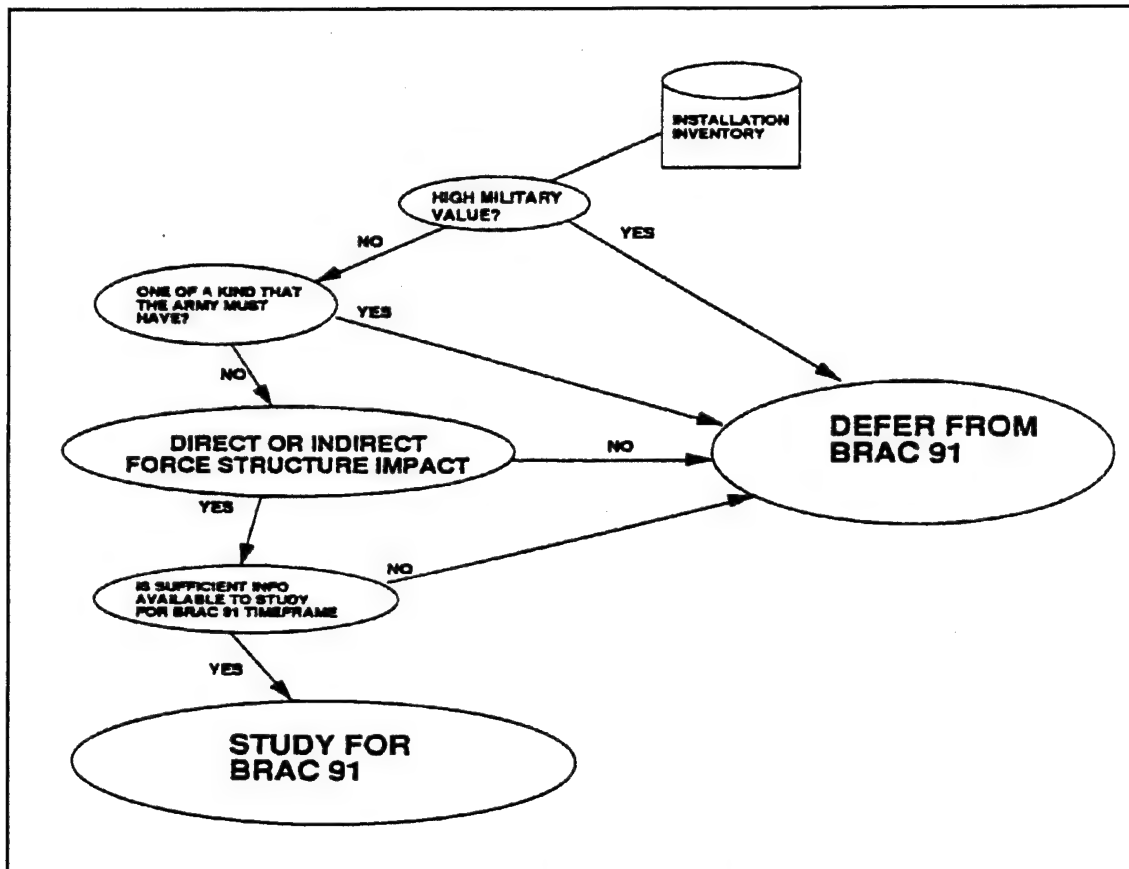


Figure 3. BRAC Screening Process

After the Army installation inventory was screened, reasonable closure and realignment alternatives were identified. These alternatives were developed using the Joint Chiefs of Staff (JCS) Force Structure Plan, Military Value Analysis, installation capacity analysis and the Army Vision of Operations in the Future (Dept of the Army, 1991). Upon identification of each candidate the Army assessed their viability by considering their return on investment (ROI), as well as the operational, economic and environmental impact.

The Army used the Cost of Base Realignment Action (COBRA) model to assess the economic value/Return on

Investment of proposed BRAC actions. The COBRA model was developed by Logistics Management Institute (LMI) for use by the 1988 BRAC Commission. This model would estimate the costs related to major actions associated with the transfer of missions between bases. Additionally, the model can also estimate the cost of disposition of assets at closed installations. "It reports the cost in terms of key decision parameters which were used by the Army to review each alternative independently and as part of an entire package, to determine if the costs of closing an installation were justifiable in view of the expected return" (Dept of the Army, 1991,p.22). The model uses a standard six-year discriminator for the ROI time period and three important factors in comparing alternatives: the payback period, the break even period and the steady state savings. The payback period is defined as the amount of time between the completion of the realignment/closure action, and the point where the cumulative reduction in operating costs equaled the total implementation costs (Dept of the Army, 1991,p.23). The break even period is defined as the amount of time between the beginning of the statutory six-year implementation period and the point where the cumulative reduction in operating costs equaled the total implementation costs (Dept of the Army, 1991,p.23). The steady state savings is defined as the recurring reduction in annual operating costs that occurs after all implementation costs have been taken into account (Dept of the Army, 1991,p.23). Given these three factors and the six-year time period it is of interest to note that the Army included the value of the land that could be disposed of at each closed installation within the ROI calculations.

However, when the estimated environmental restoration cost was higher than the value of the land, its value (land) was no longer included in the ROI calculations thus increasing the payback and break even periods.

Economic impact was measured by DOD's Office of Economic Adjustment (OEA) which developed a model based on calculations and assumptions used by the 1988 BRAC Commission. The model was modified based on GAO recommendations and assessed both direct and indirect unemployment impact within communities surrounding closing or realigning bases (Dept of the Army, 1991).

The environmental consequences were assessed for each alternative. The Army specifically considered the environmental impact of each realignment/closure proposal on the following areas:

- Endangered species
- Wetlands
- Historic/archaeological sites
- Pollution control
- Hazardous material/waste cleanup
- Land and air use
- Programmed environmental cost/cost avoidance

Finally, operational impacts were determined by the Army in assessing the degradation on readiness, mission effectiveness and management efficiency of the Army as a whole.

As the final step of Phase II the Army deferred several installations from further BRAC consideration as the alternatives evaluated during Phases I and II provided poor return on investment and force structure uncertainties (Dept of the Army, 1991). The end result of the evaluation was a list of final recommendations to the BRAC Commission which

included the recommended closure of Fort Ord and a recommendation for further study on the Presidio of Monterey/DLI. A 1993 BRAC report, using the same methodology, recommended, "close the Presidio of Monterey (POM) and the Presidio of Monterey Annex, relocate the Defense Language Institute and contract foreign language training with a public university which must be able to provide this training at or near Fort Huachuca, Arizona," (Defense Base Realignment and Closure, 1993,p.1-10).

#### **H. FORT ORD**

The history of Fort Ord dates back to 1917, when it was purchased by the Government as the Gigling Reservation. It was later expanded and redesignated Fort Ord. The installation is located five miles north of Monterey, California, and 120 miles southeast of San Francisco. The installation covers over seven and one half miles along California State Route 1 bordering the local communities of Marina, Seaside and Del Rey Oaks (Gatlin, 1992).

Fort Ord encompasses approximately 28,500 acres of land that extend inland from Monterey Bay (Landis, 1993). Of the 28,500 acres, 21,840 were used for maneuver and training areas. Support facilities account for approximately 18.5 million square feet of the installation and some 78 percent of these are permanent structures (Gatlin, 1992). There are 6,358 family housing units currently on the installation of which 508 are third party housing and support the Naval Postgraduate School. The employment structure, prior to closure, consisted of 14,359 military and 3,800 civilian job positions (Gatlin, 1992).

Prior to its closure, Fort Ord was responsible for

training and support of several Army activities. The primary tenant of Fort Ord was the United States Army's Seventh Infantry Division (Light). The post also housed several non-divisional units, and the Silas B. Hays Army Hospital. Hays Army Hospital was a 450 bed full service medical center that provided health care for the surrounding military community, and area health care to fourteen surrounding counties of California (Gatlin, 1992). The hospital also supported health clinics located at the Presidio of Monterey, the Coast Guard Station of Monterey and Fort Hunter Liggett. Fort Ord was also the parent installation for the Presidio of Monterey, and Fort Hunter Liggett. Additionally, the post was designated as a processing and training center in the event of Presidentially authorized, major mobilization.

The Presidio of Monterey, Fort Hunter Liggett and several Army Reserve Component installations depended on Fort Ord for administrative and logistic support. The Presidio drew upon Fort Ord's resources for post operations, maintenance and logistic support to sustain the students and faculty of the Defense Language Institute. The Naval Postgraduate School and the Coast Guard Station of Monterey received similar support by way of an Interservice Support Agreement (ISA) (Closure Package, 1991). Fort Ord also supported the training and Army testing facility at Fort Hunter Liggett.

In addition to supporting active duty Army activities, all active duty, retired and dependent military personnel were eligible to use many of the facilities at the post. These facilities included a post exchange, library, chapel, hospital and various morale, welfare and recreation (MWR) activities. Approximately 44,000 active duty personnel, from



five Military Services, and over 45,000 retirees frequented these facilities prior to the BRAC 91 decision to close the installation (Gatlin, 1991).

At the completion of the BRAC 91 evaluation process, Fort Ord was rated as the 10th most important fighting installation out of 13 installations within the category. It is of interest to note that while Fort Ord was ranked 10th in a group of 13 bases, four of the bases within the fighting installation category were deferred from further consideration due to the screening process. Three of the four installations deferred were, Fort Richardson, Alaska, rated 11th and deferred due to force structure uncertainties; Schofield Barracks, Hawaii, rated 12th, deferred due to its strategic location and one of a kind capability to perform its mission; Fort Drum, New York, rated 13th deferred due to force structure uncertainties (Dept of the Army, 1991). The fourth deferment was Fort Polk, Louisiana; and although this installation was rated eighth out of 13 this meant that in reality only nine installations in the fighting category were evaluated for closure. The deferment of the aforementioned installations leaves Fort Ord as rated ninth out of nine installations assessed or dead last in the running to remain operational.

As a result of the 1991 BRAC Commission evaluation subsequent recommendation to the Secretary of Defense, Fort Ord was closed and the United States Seventh Infantry Division (Light) was transferred to Fort Lewis, Washington. After further consideration of the impact Ord's closure would have on the remaining Monterey Peninsula installations a small enclave of family housing and services were allowed to remain in operation.

## **I. DEFENSE LANGUAGE INSTITUTE/PRESIDIO OF MONTEREY**

The Defense Language Institute was initially commissioned in 1941 and began its operations at Fort Snelling, Minnesota. The school was relocated to its current location at the Presidio of Monterey in 1946 and continues to operate on the Monterey Peninsula. DLI currently provides instruction in 21 different languages and foreign area studies. The school has an average annual enrollment of 3,600 students from four of the Military Services (Landis, 1991).

DLI is organizationally assigned to the Army Training and Doctrine Command (TRADOC) and receives all funding from that MACOM. Although DLI is a TRADOC sponsored activity the land it occupies, the Presidio of Monterey, is owned by Forces Command (FORSCOM). The POM includes approximately 390 acres of land with an estimated 1.7 million square feet of permanent facilities for training, housing and office space (Landis, 1991).

In the 1991 BRAC evaluation, the POM was classified as a training installation and subclassified as a professional school. It was rated third out of five installations evaluated for military value. However, the 1991 report deferred all professional schools from further BRAC consideration citing the increased cost of moving the activities and additional construction costs to provide additional field grade housing for faculty and staff supporting the DLI mission.

## **J. CITY OF MONTEREY**

Monterey is a quiet, well-managed coastal city of approximately 30,000, whose scenery and rich historic past

contribute to its reputation as a desirable convention site and vacation destination.

A military presence has been notable from its founding by the Spanish in 1769 up to the present time. Currently both the Army managed DLI located at the POM and the Naval Postgraduate School are sited in Monterey. In addition to those military installations, Monterey is also the site of the Monterey Institute of International Studies, Monterey Peninsula College, Monterey College of Law and the newly established California State University at Monterey Bay.

### III. ECONOMIC IMPACT

#### A. BACKGROUND

Defense spending has become an integral part of our national economy. The military build up of the Reagan era (1981-1988) provided an economic boom to many industries and local municipalities. Military weapons contracts were in abundance, installations expanded due to increasing personnel strength, and communities adjacent to these activities were instantly injected with an additional flow of revenue, new jobs and a mistaken sense of financial security. With the initiation of the BRAC process in 1988 the economic contribution of these military monies, to both industry and the public at large, began to evaporate. It is of interest to note that history provided a warning against developing this symbiotic relationship between defense spending and the national economy.

During his farewell address to the American people, in January 1961, U.S. President Dwight D. Eisenhower cautioned the nation: "In the councils of government, we must guard against the acquisition of unwarranted influence, whether sought or unsought, by the military-industrial complex" (STW, 1992). Eisenhower was warning against the conjunction of interests and the great potential influence wielded by a large and continually growing military establishment working with a large arms industry. Since Eisenhower's speech, the military-industrial complex has usually been discussed in terms of the deleterious effects defense spending has had on the U.S. economy (STW, 1992).

The effect base closure and the absence of liberal defense spending will have on Monterey County has been

calculated by both the Government and the City with significantly differing results.

## **B. THE GOVERNMENT ESTIMATE**

The Logistics Management Institute (LMI) was contracted by the Government to assess the economic impact on all areas of the United States affected by BRAC Closures. LMI used three components to estimate that impact: payroll (Military, DOD Civilian and Reserve Component): prime contracts and local purchases by the installations in question. Given the components, LMI analyzed their role in the economy using the following methodology.

### **1. Determination of Representative Areas**

To assess the impact BRAC Closures and reduced defense spending would have on local economies, it was necessary to analyze the nation according to regions known as Metropolitan Statistical Areas (MSA). The MSA designation was developed by the Census Bureau for metropolitan areas with a central city or urbanized area having a minimum population of 50,000 with a total population of 100,000. The purpose of the designation is to divide the United States into equivalent regions for study and accumulation of Census data. This division would accommodate use of The Department of Commerce Regional Input-Output Modeling System II (RIMS II). Several criteria were used to determine how the areas would be selected. Factors used to select the areas were population, type of DOD activity and geographical location. Table 1 illustrates the differentiation between MSAs. The City of Monterey is considered to be a Group 2 MSA County consisting of Monterey, Salinas and Seaside.

Group 1	Large MSA/County	650,000 (or more)
Group 2	Large MSA/County	60,000-649,999
Group 3	Non MSA	59,999 (or less)

**Table 1. Metropolitan Statistical Area (Population)**

## **2. Jobs and Earning Multipliers**

This section of the LMI methodology focuses on two effects of BRAC Closure: jobs and earnings. Jobs are classified in three separate categories: direct, indirect and induced. Direct jobs are those held by active duty military personnel, DOD Civilians and prime contract employees (LMI, 1993). Indirect jobs are those positions that produce goods or services directly input into an installation or prime contract (LMI, 1993). Induced jobs are defined as those positions created as a result of local spending by direct and indirect workers (LMI, 1993). To estimate the impact of job and earnings losses from a specific DOD Activity, multipliers were developed using RIMS II. These multipliers are then applied to the actual direct job losses to estimate the number of indirect and induced jobs that will be lost within an MSA. The multiplier designated for the MSA County of Monterey, Salinas and Seaside was 0.50.

## **3. Determination of Military and DOD Civilians**

It was necessary for LMI to estimate the number of military and DOD civilian personnel in each MSA. This task was quite difficult as there was no current DOD data base that allocated military payroll or personnel by MSA/county. Subsequently, LMI used two data sources outside DOD to

estimate military and DOD Civilian personnel at the MSA/county level: the DIOR Atlas/Data Abstract for the United States and the FORMIS-91 and 97 Reports.

The DIOR Atlas/Abstract lists the number of active duty military personnel and civilians by state and location for the 10 largest DOD installations within each state. However, the county or MSA location was not identified in the abstract, and in states with more than 10 installations (California, Texas and Virginia) several installations were excluded from the report. FORMIS-91 and 97 provide data presented by installation for military and DOD civilian personnel for each Service. Again, the MSA subdivision or place of residence was not always identified by the report.

The Monterey MSA was identified as employing approximately 19,000 direct military personnel and 6,000 DOD civilians in FY 91 (prior to Fort Ord Closure).

#### **4. Allocation of Military Payroll**

Data about combined military and DOD civilian payrolls at the MSA/county level are found in the Consolidated Federal Funds Report FY 91. These data are also provided in the DIOR Atlas/Abstract but it does not provide the data at the MSA/county level. The military payroll for each area was estimated by multiplying the number of military personnel residing in the area by the average military wage. The average military compensation for FY 91 was \$22,800 per active duty person (LMI, 1993). Civilian payroll was determined by subtracting the active duty military payroll from the total DOD payroll outlay. The remainder was assumed to represent civilian pay and reserve component pay. The direct civilian payroll average for FY 91 was estimated at \$30,000 per person (LMI, 1993). Therefore the total direct

loss of regional income if both Fort Ord and DLI were to close would be approximately \$613 Million, using the LMI model.

#### **5. Estimating Impact of DOD Payroll**

To estimate the indirect and induced economic impact of the DOD payroll in each area multipliers for earnings were developed from the RIMS II model. These multipliers account for the Post Exchange, Commissary and other services available to military personnel on an installation. A downward adjustment was made to all military salaries based on these services. Army and Air Force salaries were only worth 77 percent of the amount originally estimated, while Navy salaries were only worth 73 percent of the amount originally estimated. Civilian salaries, however, were worth 100 percent of the RIMS II value estimated due to the assumption that civilians do not consume any goods or services on base (LMI, 1993). Using the multipliers for each salary the adjusted amount of direct loss of regional income would now be \$512 million.

#### **6. Installation Purchases**

Purchases made by installations within the MSA were computed by examining prime contract base purchases using the DD Form 350 Individual Contracting Action Reports and data from the Consolidated Federal Funds Report. The determination that certain contracts were linked to a specific installation was based on their Standard Industrial Classification (SIC) Code. The total value of base purchases was compared with the total DOD payroll for the MSA. LMI found that local prime contracts average about 13 percent of total DOD payrolls for the MSA. Therefore it is estimated that an additional \$66 million in installation purchases



would be lost by the closure of Fort Ord and DLI.

#### **7. Total DOD Generated Employment/Earnings**

Total DOD generated employment for each MSA was computed as the sum of: direct military/civilian employment; indirect and induced employment from payroll spending; and direct, indirect and induced employment from installation spending. The Monterey MSA was identified in the LMI study as one of 31 MSAs with 20 percent or higher DOD related jobs as part of total MSA employment figures.

The total DOD generated earnings was calculated from the sum of all DOD military/civilian payroll, additional earnings generated by DOD personnel outlays (e.g. interest on accounts, dividends paid, rents and transfer payments), purchases by the local installation and DOD procurement contracts in the MSA. Table 2 provides a summary of the total direct and indirect economic impact for the Monterey MSA due to the closure of Fort Ord and DLI. It is necessary to note that the LMI study did not provide an average salary for the income lost due to the termination of indirect or induced jobs.

#### **8. Government Study Limitations**

The LMI study had several limitations that consistently underestimate the impact of base closure in the Monterey MSA. Assumptions and estimates for Non-Appropriated Funds (NAF) employees were omitted due to the lack of available data. Also, approximately \$20.4 billion in prime contracts could not be allocated to any MSA within the study. NASA projects, Department of Energy contracts and classified procurement programs, (contracted through DOD) were also excluded from the estimate. The effect on the real estate market and property values was not assessed. Finally, the

Category	Jobs	Earnings
Direct Military	19000	\$333 Million
Direct Civilian	6000	\$180 Million
Indirect/Induced	12500	NA
Additional Earning	NA	\$ 1.5 Million
Installation Purchasing	NA	\$ 66 Million
Procurement Contracts	NA	NA
<b>TOTAL</b>	<b>37500</b>	<b>\$579.5 Million</b>

**Table 2. Government Estimated Economic Impact Monterey MSA**

study did not assess the normal cycle of each MSA individual economy. The general assumption was that each MSA was a production or industrial based economy that was capable of absorbing some of the workers displaced by base closure.

### **C. THE CITY ESTIMATE**

Over the past 50 years the composition of the Monterey region's economic base has become more diverse and stable due to increased Government spending and tourism (Kibby, 1994). However, Monterey's economy has always been dependent on agriculture. Even today it still comprises over a third of the local economy. DOD employment represents a flow of steady income to the Monterey Region, stimulating local demand and the production of a variety of goods and services. Fort Ord had provided a stable source of regional income for almost 80 years (Kibby, 1994). The other military installations and activities on the Peninsula, such as DLI and NPS have increased the importance of military income within the local community.

The Monterey Regional economy continues to experience dramatic swings in activity and employment due to weather and growing conditions. The value of the military payroll as a steady source of income into the region is not fully considered by large economic models like RIMS II (Kibby, 1994, p.64).

The methodology used by the City to estimate the impact of base closure is similar to LMI. The results of their analysis are stated in terms of increased unemployment, direct and indirect job loss, impact on commercial and real estate markets and other intrinsic factors. However, we will compare the estimates using the LMI headings.

### **1. Jobs and Earning Multipliers**

The job categories defined by LMI, direct, indirect and induced are not in dispute by the City, however the multipliers are in debate. Econometric and other simulation models suggest that the potential cumulative employment effect of the closure of Fort Ord and DLI would be greater (Kibby, 1994, p.66). Since the worker base within Monterey County is small, a change in employment increases the impact on the labor market (Kibby, 1994). Several agencies in addition to the city conducted separate analyses to determine the multiplier used to determine indirect and induced job loss. Table 3 shows the estimated indirect/induced job loss due to DLI closure (Kibby, 1994,p.72). The City subscribes to a multiplier of 0.67 for indirect/induced job loss.

### **2. Determination of Military and DOD Civilians**

The City used data provided directly from the installations to determine the total number of military and

Agency	Multiplier	Total
City of Monterey	0.67	3550
DOD-LMI (RIMS II)	0.5	2650
Office of Governor	1.3	6900

**Table 3. Indirect Job Loss Estimate Comparison (DLI Only)**

civilian employees at Fort Ord and DLI. Although the data provided nearly exact numbers the total was rounded to the nearest hundred for computational purposes. Fort Ord employed approximately 20,700 civilian and military personnel while DLI employs approximately 5,300. Given the multipliers listed in Table 4 the total direct and indirect job loss from DLI closure could range from 7,950 to 12,200 jobs.

### **3. Allocation of Military Payroll**

The City assumed, in allocating the effect of lost payroll, that the median salary for the student load at DLI was \$34,000. This salary level is the DOD certified average cost used in the COBRA model for Government estimates (Kibby, 1994). Given this salary level the approximate loss to the economy is \$112 million. However, since many of the DLI students are entry level soldiers the estimated income was reduced to \$40 million (Kibby, 1994). In addition to the student load, DLI employs approximately 375 military personnel as instructors and support staff, which are predominantly married and live off post. The total estimated payroll of the DLI staff is \$14 million (Kibby, 1994). Approximately 1,200 civilians are employed at DLI as instructors and support staff. The assumption was made that all DLI civilians make the median household income of Monterey County, \$34,200. The additional impact of losing

civilian salaries is estimated at \$40 million. There are also approximately 450 civilian support staff positions not associated with DLI which are primarily used for BASEOPS support at the POM Annex (Fort Ord), adding another \$15 million in direct salaries. The total military and civilian payroll attributable to DLI is roughly \$110 million.

#### **4. Estimating Impact of DOD Payroll**

The only adjustment of payroll was in assessing student payroll from the computed \$112 million to \$40 million. This was due to the majority of DLI students achieving only initial entry ranks prior to attendance. All other DOD payroll was assessed without downward adjustment.

#### **5. Installation Purchases**

As DLI has not awarded any prime procurement contracts, installation purchases were limited to supplies and services purchased locally. DLI spends approximately \$9.9 million on installation purchases (Kibby, 1994).

#### **6. Total DOD Generated Employment/Earnings.**

The Monterey Region economic base employment peaked in 1988-89, the end of the Reagan era (Kibby, 1994). It is estimated that 25 percent of all current and future unemployment in Monterey will be the result of Fort Ord's closure and the proposed closure of DLI (Kibby, 1994). Unemployment for the Monterey County region rose from eight percent to 19 percent after the closure of Fort Ord. The City estimates that the closure of DLI would raise unemployment another six percent (Kibby, 1994). This relates to a 25 percent jobless rate just by adding the numbers. However there are other impacts to the area in addition to direct job loss. As military personnel are now using

civilian health care, due to the closure of Silas B. Hays Army Community Hospital, those lost revenues must be considered. The estimated lost revenue for military health care is approximately \$5.8 million. This assumes that the CHAMPUS payments approximate national average payments, at \$1500 per person (Kibby, 1994). Rental payments and real estate market effects must also be considered as economic loss should DLI close. Currently, at least 500 military personnel from DLI rent housing at an average monthly cost of \$800. This contributes an additional \$4.8 million into the regional economy. The real estate market will be affected should DLI close. For example, the home market in the Monterey MSA has changed dramatically since the closure of Fort Ord. Prices of homes dropped 10 percent in the 18 months following the announcement of the installation's closure (Kibby, 1994). The real estate consulting firm of Sedway & Associates estimated in 1992 that vacancy rates for rental housing could grow from 3.7 percent to an excess of 30 percent in Marina and Seaside. These vacancy rates put financial pressure on the owner and can cause a high rate of foreclosure or mortgage defaults. The result will be increased Federal expenditures by the Veterans Administration, FHA and HUD. Additionally the City itself will be impacted by reduced revenues. The closure of DLI could further reduce the City's population by 15 percent (Kibby, 1994). Municipal revenue is driven by sales taxes and transient occupancy taxes. Fort Ord's closure reduced the budgets of the Cities of Marina and Seaside by 10-15 percent. It is also estimated that DLI closure in addition to Fort Ord will cause the Monterey Unified School District to lose \$22.5 million annually and force a layoff of 600

teachers and staff. The actual financial loss due to many of these impacts is difficult to estimate.

The total DOD generated employment was computed in the same manner as the LMI study as the sum of: all DOD military/civilian payroll, additional earnings generated by DOD personnel outlays (e.g. interest on accounts, dividends paid, rents and transfer payments), purchases by the local installation and DOD procurement contracts in the MSA. In addition health care loss, rental loss and unemployment compensation were added to the City estimate. Table 4

Category	Gross	Adjusted
Civilian Income	\$ 71.5 million	\$71.5 million
Military Staff	\$ 14.6 million	\$14.6 million
Enlisted Students	\$112 million	\$57.5 million
Health Care	\$ 5.8 million	\$ 5.8 million
Rental Loss	\$ 4.8 million	\$ 4.8 million
Unemployment Compensation	\$ 11.0 million	\$ 11.0 million
Local Purchases	\$ 9.9 million	\$ 9.9 million
<b>Total</b>	<b>\$232.9 million</b>	<b>\$169.7 million</b>

**Table 4. Direct Economic Impact of DLI Closure**

provides direct economic impact of DLI closure (Kibby, 1994, p.69). Table 5 provides the commulative regional impact of the closures of both DLI and Fort Ord (Kibby, 1994).

#### **7. City Study Limitations**

The City study had two distinct limitations. First the use of the Monterey County Median Household income for civilian salary. As the data on civilian employment were

Category	Jobs	Earnings
Direct Job loss	26000	\$535 million
Indirect/Induced Loss	15800	\$295 million
Installation Purchases	NA	\$ 75.9 million
Procurement Contracts	NA	NA
Additional Earning	NA	\$3.1 million
<b>Total</b>	<b>41800</b>	<b>\$909 million</b>

**Table 5. Cumulative Regional Impact of Fort Ord & DLI Closures**

gained from the installations General Service grade and step level could have been used to better estimate the average civilian salary. Second, in downgrading the enlisted student salaries for the DLI student load the City cited no specific methodology in arriving at the \$40 million figure.

#### **D. SUMMARY**

The economic impact studies for both the Government and the City predict a turbulent future for the Monterey County Area. The actual economic loss the Monterey MSA could expect to experience is somewhere between the Government estimate of \$580 million and the City estimate of \$909 million. The projected loss of this revenue compelled the City to respond with an alternate solution to the closure of DLI.





#### IV. THE CITY PROPOSAL

##### A. BACKGROUND

###### 1. Specific Legislation

On May 7, 1993 the City of Monterey made it clear to DOD that they were ready to assume certain burden sharing costs to insure the continued operation of DLI and possibly NPS in Monterey. The City hoped this would prevent the relocation of DLI to Fort Huachuca, Arizona, and contracting of DLI training with the University of Arizona. The City and its officers submitted a proposal, whereby the City of Monterey would assume certain BASEOPS functions under a Fixed-Price contract. The proposal was later adjusted from a contracting action to a real estate action. In the updated proposal the City would lease all land from DOD that encompassed the POM and then lease back to DOD all land and facilities necessary to operate DLI. As consideration for the lease agreement, the City as landlord, would provide the same BASEOPS functions at no cost. The cost to DOD to lease back all land and facilities necessary to operate DLI would be the aggregate cost of the BASEOPS provided by the City.

This new proposal would be known as the lease-lease back initiative and can be accomplished under 10 U.S.C. Section 2667, Leases: non-excess property. The law requires Secretary of the Army approval to lease the land and provides specific guidelines as to when a lease may be authorized, the length of the lease and how the monies received from the lease are to be distributed. The Secretary of any Military Department has the authority to lease land when he/she:

*...considers it advantageous to the United States, he may lease to such lessee and upon such terms as he considers will promote the national defense or be in the public interest, real or personal property that is under the control of the department, not needed for public use or that is not classified as excess property (10 U.S.C. 2667, (a)).*

The duration of the lease, as specified in Subsection B, may not be longer than five years. However, should the Secretary determine that a longer lease will promote national defense or be in the public interest, the lease may be for longer periods. Except for lands that are leased for agriculture and grazing, all monies received from the lease shall be credited into the United States Treasury as miscellaneous receipts. However, any payments for utilities or services furnished to the lessee by the Department concerned may be credited to the Department.

The Mayor of Monterey validated submission of the proposals via Section 2924 of Public Law 101-510, Community Preference Consideration in Closure and Realignment of Military Installations, which states:

*In any process of selecting any military installation inside the United States for closure or realignment, the Secretary of Defense shall take such steps as are necessary to assure special consideration and emphasis is given to any official statement from a unit of general local government adjacent to or within a military installation requesting the closure or realignment of such installation....*

The intent of the City Council of Monterey is to use this proposal to keep DLI, and its economic contribution, located in Monterey. However, it is noted that in minutes of a City

Council meeting a detailed statement of intent was issued; "...This proposal will provide no profit to the City nor will it undermine the existing city infrastructure to our detriment..."

## **2. Unsolicited Proposal (Qualification)**

Essentially, local government officials provided an unsolicited proposal to the DOD with the City of Monterey, a municipality, as prime offeror. Transactions such as these are governed by the Federal Acquisition Regulation (FAR) which provides all government officials with the guidelines and laws for all forms of acquisition, purchasing and contracting. The unsolicited proposal is defined in the FAR Subpart 15.501 as:

*...a written proposal that is submitted to an agency on the initiative of the submitter for the purpose of obtaining a contract with the Government and which is not in response to a formal or informal request.*

The unsolicited proposal provides the Federal Government with a valuable means of obtaining innovative approaches to mission completion from sources or individuals outside the Government. However, FAR Subpart 15.503 states that a valid unsolicited proposal must be, innovative and unique, independently originated and developed by the offeror, prepared without Government supervision and provide sufficient detail to permit a determination that Government support could be worthwhile and benefiting to the agency mission. Additionally, an advance proposal for a known agency requirement is not considered to be unsolicited.

The general policy regarding the unsolicited proposal is, that agencies may accept such proposals provided it is

done in accordance with FAR 15.507. Should an agency receive an unsolicited proposal that is not related to their mission or needs, that agency may identify, to the offeror, other agencies whose missions are related to the proposed subject matter. Additionally, FAR 15.504 suggests that potential offerors make preliminary contacts with the appropriate agency personnel prior to expending funds or manpower in preparing a detailed unsolicited proposal. The preliminary contacts should include inquiries as to the need for the type of effort considered and inquiries to fully understand the agency mission. In contrast to the offeror's initial contact, the agency is required to make certain general information available to the offeror of an unsolicited proposal. The information must be written and include the definition of an unsolicited proposal, the requirements for responsible prospective contractors, agency points of contact, procedures for submission and evaluation of the unsolicited proposals, instructions on identification and marking of proprietary data and information sources on agency objectives and potential interests.

The content of the unsolicited proposal is less extensive than the normal proposal simply because there are no specifications or evaluation criteria to address from the RFP. The unsolicited proposal should include the basic contractor identification data, an area that discusses technical information and an area that provides the required supporting information. Of the three areas the technical data is the most important and provides the purpose of the proposal. FAR 15.505 states that the technical section should include, a concise title and abstract of the project, a discussion of objectives, methods and expected results of

the project, names and biographical information of key personnel and the type of support needed from the Government.

Given the minimal requirements for an unsolicited proposal to be considered it is of interest to note the prohibitions imposed on Government employees who deal with this type of proposal. FAR 15.508 directs Government personnel not to use any data, concept or idea from an unsolicited proposal as the basis for a new solicitation, or in negotiations with another firm unless the offeror is contacted and agrees to the intended use. Additionally, Government personnel are also restricted from disclosing restrictively marked proprietary data, listed in an unsolicited proposal.

The City proposal qualifies as unsolicited given the requirements of the FAR. However, the legislative requirements of PL 105-510 and FAR Part 15 only compel Government officials to read and review the proposal. Once reviewed the proposal does not have to be formally evaluated, accepted or rejected.

## **B. PROPOSAL**

### **1. BASEOPS Functions**

The list of base operations services conducted at DLI is extensive and diverse. Although the City of Monterey proposes to assume responsibility for a significant amount of these services many specific services will remain under Department of the Army control. The City proposes to furnish the following BASEOPS functions as part of the proposal: Facility Maintenance, Utility Operations, Engineering

Services and Fire and Police Services. Within each of these areas the City intends to provide labor, supervision, administration, management, supplies, materials and equipment. The work to be performed specifically by the city would be: (Cohn, 1993).

Repair and maintenance of buildings and structures  
 Repair and maintenance of paved roads and surfaces  
 Operation repair and maintenance of the following utility systems:

- Potable Water System
- Natural Gas Distribution
- Electrical Distribution
- Sanitary Sewer Collection
- Maintenance of improved and unimproved grounds
- Engineering, planning, programming and inspection of:

- MCA Projects
- MCA - Minor Projects
- Engineering Support (day to day work)
- Fire prevention and suppression
- Law enforcement
- Administration of Contracts for purchased utilities if desired

City Action	Government Action
<b>Maintenance</b>	<b>Purchase Utilities</b>
Buildings & Roads	Water, Gas, Electric
Improved/Unimproved Grounds	Sewer
<b>Operations &amp; Maintenance</b>	<b>Purchase Services</b>
Potable Water & Gas Dist.	Refuse Collection
Sanitary Sewer Dist.	Telephone & Laundry
Electrical Dist.	Child Care & Food Service
<b>Engineering</b>	<b>Personnel Support</b>
Engineering Review/MCA Proj.	Contracting
<b>Fire Prevention/Suppression</b>	<b>Records Management</b>
<b>Law Enforcement</b>	MWR
<b>Contract Administration</b>	

Table 6. Comparison of BASEOPS Responsibilities

Given this menu of services the Army would be responsible for the following services which include purchasing of all utilities, phone service, transportation, laundry, food service, personnel support, child care, MWR, Contracting, and records management. The cost to the Army for the remaining services could be further reduced through consolidation and interservice agreements with the Naval Postgraduate School. Table 6, compares the BASEOPS responsibilities between the Government and the City.

## **2. Costs**

The City of Monterey asserts that land containing the Presidio (e.g. 1.9 million cubic yards) can be assimilated into the existing city support structure and maintained with only minor additions to the City's equipment pool. The minor additions are estimated to cost the City and/or the Government \$457,100 initially for capitalization in addition to the lease cost.

The current operating budget for the Defense Language Institute is \$9.2 Million for all support services. However, the City of Monterey actually estimates the cost of these services at \$8.3 Million. A cost comparison of Base Operating Services (BASEOPS) is contained in Table 7. Once the lease agreement is completed, the City will lease back, at a cost of \$2.6 million, the land and buildings necessary to operate DLI, to the DOD. This assumes that the Government will continue to pay for utilities and other BASEOPS services at a cost of \$5.7 million. This arrangement would in theory save the Government approximately \$3.5 million per year. This arrangement becomes a land transfer action, between lessee and lessor, rather than a procurement action



	<b>Army Est.</b>		<b>City Est.</b>
<b>Utilities</b>	<b>1,797,907</b>		<b>1,797,907</b>
<b>RPMA</b>			
BOQ	111,128		incl.
Family Housing	274,182		incl.
Other	1,037,371		incl.
<b>Sub Total</b>	<b>1,422,681</b>		<b>1,521,827</b>
<b>Engineering SPT</b>			
Fire Dept	364,000		366,428
Refuse	incl.		223,731
Engineering	incl.		213,631
Project MGT	incl.		80,261
Work MGT	incl.		53,611
Environmental	incl.		32,566
Quality Control	incl.		51,552
Other	1,238,015		38,702
<b>Sub Total</b>	<b>1,602,015</b>		<b>1,060,482</b>
<b>Other Accounts</b>			
Police	226,285		134,713
Custodial	393,168		393,168
Building Sup	236,786		236,786
Maintenance	351,466		93,048
Transportation	221,840		221,840
Laundry	42,850		42,850
Food Service	2,100,300		2,100,300
Personnel SPT	209,528		188,575
Child Care	140,485		140,485
Telephone Sys	84,255		84,255
MWR	130,949		130,949
Resources MGT	178,864		160,978
Contracting	75,888		45,533
Records MGT	17,585		17,585
<b>Sub Total</b>	<b>4,410,249</b>		<b>3,991,065</b>
<b>Total</b>	<b>9,232,852</b>		<b>8,371,281</b>
<b>Delta</b>	<b>861,571</b>		
City Cap. Cost		<b>457,100</b>	
<b>Delta 1</b>	<b>404,471</b>		
<b>Burden sharing</b>			
City	2,586,339		
Government	5,784,942		
<b>Total</b>	<b>8,371,281</b>		

**Table 7 BASEOPS Cost Comparison**

and as such may not be subject to certain regulations or restrictions of normal contract activities. The City intends to make up the difference in lease price by leasing unused portions of the Presidio to other activities complementary to the DLI mission. One initiative may be led by a consortium of the Monterey Institute for International Studies and California State University at Monterey Bay to provide language training for audiences not directly served by DLI. Any additional cost that cannot be recovered through additional leasing would be absorbed by the City.

The lease-lease back arrangement has several advantages for the City as well as DOD. First it saves considerable BASEOPS expense while maintaining mission capability. The agreement allows DOD to maintain long term ownership of DLI assets and lands. The City can focus specific manpower spaces on DOD unique functions. It allows DOD to maintain its contingency capacities in case of mobilization. Finally, this proposal may create a management model for other small installations located within municipalities.

### **3. Pricing**

In pricing the cost of the specific BASEOPS services the City used its own historical costs and completed an incremental analysis of those costs. The historical costs used were as recent as one year but no older than two years. The historical costs were for the same types of jobs and services that would be provided to DLI should the proposal be approved. In analyzing costs the following steps were taken. All costs associated with providing services to DLI were totaled. Once the total cost was tabulated fixed costs were dropped. With this method the City of Monterey assumes responsibility for all fixed costs, charging the Government

### City Cost

Position	Hourly Rate	Burden	Adj Rate	Yearly Cost
Associate Civil Eng	28.26	34%	37.87	78,770
Junior Civil Eng	19.93	34%	26.71	55,557
Eng Technician	16.79	34%	22.50	46,800
<b>Subtotal</b>				<b>181,127</b>
<b>Supplies</b>	Draft Engr Supplies			21,735
<b>Equipment</b>	Computers, 2 each			6,667
	Mini Pickup 1 each			3,552
	fireproof file			250
<b>Total City Cost</b>				<b>213,331</b>

### Govt Cost

Position	Hourly Rate	Burden	Adj Rate	Yearly cost
Associate Civil Eng	28.26	0%	28.26	58,780
Junior Civil Eng	19.93	0%	19.93	41,455
Eng Technician	16.79	0%	16.79	34,925
<b>Subtotal</b>				<b>135,160</b>
<b>Supplies</b>				0
<b>Equipment</b>				0
<b>Total</b>				<b>135,160</b>

### Cost Difference

City Cost	213,331
Govt Cost	135,160
Cost Absorbed by City	78,171

Table 8. Pricing Strategy Example

(DOD) only those variable and material costs necessary to provide BASEOPS. Once rates were computed they were applied to current historical hourly usage rates at DLI for all services that would be provided by the City. A standard example of this strategy is listed in Table 8 (Cohn, 1993).

#### **4. Limitations**

The City proposal has several limitations that must be addressed prior to its acceptance or actual implementation. First, what type of lease would be used by the DOD to lease the land to the City of Monterey? Second, what type of lease can the City use to lease back the land to DOD? Third, costs for construction of new facilities are mentioned in the proposal but not specifically assigned to the City or DOD. Fourth, the City will require anywhere from 10-30 additional employees to implement the proposal. The Assistant City Manager believes that hiring the displaced employees from Fort Ord or DLI would be candidates for these jobs. The question of seniority and pension benefits and the transfer of these benefits from the Federal Government to the City are in question. Additionally, accident liability and disaster liability are also in question; who pays for insurance, who will cover costs of repair, the City or DOD? There are also a myriad of other smaller issues that must be negotiated should the proposal be accepted by the DOD.

### C. ADDITIONAL ESTIMATED SAVINGS

In addition to the estimated savings in BASEOPS functions, the City asserts that certain one time costs would be saved by accepting the proposal. These one time costs can be classified as closure costs and construction costs.

Closure costs are those expenditures that must be disbursed in order to properly close an installation. The closure costs the City focuses on are Reduction In Force (RIF) cost, moving costs, unemployment compensation, and administrative support to accomplish the closure. Table 9 provides what the Army estimates it will cost in these four areas should DLI close. The City has estimated the real cost of these activities (Cohn, 1994). Real cost is defined as the measure of a price or income which is corrected for inflation factors over a period of time as to assess the actual purchasing power (Friedman, 1987).

Item	Army Estimate	Real Cost Estimate
RIF Cost	\$1.6 million	\$13.12 million
Moving Cost	\$7.8 million	\$15.7 million
Unemployment Comp.	\$1.05 million	\$8.14 million
Admin. Support	\$0.13 million	\$12.76 million
<b>TOTAL</b>	<b>\$10.68 million</b>	<b>\$49.72 million</b>

**Table 9. Summary of Estimated One Time Closure Costs**

The one time construction costs are those expenses which are disbursed to provide the facilities necessary to support the DLI mission at another location, in this case Fort Huachuca, Arizona. Table 10 provides a summary of these

categories, the Army estimated cost and the City estimated real cost (Cohn, 1994).

Item	Army Estimate	Real Cost Estimate
Classroom	\$0	\$97.01 million
Academic Spt Bldg.	\$0	\$4.15 million
Warehousing	\$1.93 million	\$3.85 million
Family Housing	\$36.68 million	\$152.80 million
Company HQ	\$4.63 million	\$6.48 million
Child Care Center	\$2.31 million	\$3.80 million
Other Troop Spt.	\$6.20 million	\$8.75 million
<b>TOTAL</b>	<b>\$51.75 million</b>	<b>\$276.84 million</b>

**Table 10. Summary of Estimated One Time Construction Cost**

If DLI is closed and moved to another location the long-term real cost to move the personnel and reestablish the facilities is estimated at \$327 million. A decision to retain DLI in its current location or to accept the City proposal would save approximately \$327-\$330 million in defense spending.

#### **D. POLITICS**

The politics of base closure is a difficult puzzle to assemble. In the past seven years several major installations have been slated for closure. However, 26 of these are still in operation. The DOD has transferred offices and new functions to these bases in order to keep them operational. Additional studies have been conducted by DOD and results forwarded to the BRAC Commission to solicit

their approval to keep the installations open. Currently bases that are slated to close receive little scrutiny after the decision to close is made (Schimtt, 1994). This is due to loopholes in the BRAC laws and lobbying by communities close to the installation in question. In 1991 the BRAC commission received over 30 letters and proposals from municipalities adjacent to closure installations requesting further study. These letters were endorsed by local and Federal politicians.

The BRAC process itself is a political one. The Commission is made up of seven appointed members. Of these seven, three are appointed by the President of the United States, two by the Senate Majority Leader and two by the Speaker of the House of Representatives (Akeman, 1994). Recent Congressional elections have placed additional focus on the BRAC process as many Senators and Representatives from the Democratic Party were displaced by newly elected Republican Party members (Akeman, 1994). The Honorable Sam Farr (D), House of Representatives, warned the Monterey Community that these election results pose new threats to DLI and its continued operation on the Peninsula (Akeman, 1994). This threat comes from newly elected Republicans in Arizona who would increase pressure to move DLI to Fort Huachuca, Arizona. In response to this threat Farr has introduced and supports new legislation that would allow military installations to negotiate directly with cities. The City of Monterey Lease-Lease Back initiative is a model for this type of negotiation (Hammond, 1995).

To counter political influence and level the playing field of the BRAC process, many communities have begun their own lobbying campaigns. The City Council of Monterey has

approved over \$400,000 for consultants, studies and numerous trips to Washington, D.C., for Mayor Dan Albert, City Manager Fred Meurer and Assistant City Manager Fred Cohn (Hammond, 1995). The California Governor's Office has established the position of Director of Military Base Retention. This state official works with local communities to develop action plans and assists in lobbying (Official, 1994). However, California is not the only state to become involved in base retention. The City of Sierra Vista, Arizona, which is adjacent to Fort Huachuca, has also earmarked \$15,000 for lobbying and consultants (Howe, 1994). The Sierra Vista Economic Development Foundation has taken the lead in developing its own action plans, lobbying techniques and obtaining consultants to solicit the movement of DLI (Howe, 1994). The States of Texas and Utah have similar organizations also attempting to influence the DLI decision (Akeman, 1994). In essence the DLI situation has become a small bidding war between communities who have positively assessed the economic value of the installation.

In addition there are many reuse groups, citizens groups, individuals and other organizations, that attempt to change or prevent BRAC decisions from becoming reality. One example is the Fort Ord Reuse Authority (FORA). This organization has fully and publicly endorsed the Monterey Lease-Lease Back initiative. Since FORA has direct jurisdiction over how land at the Presidio of Monterey Annex is to be used this endorsement provides additional support and justification for accepting the City of Monterey proposal.

It is of final interest to note that DLI was originally slated for closure on the 1991 and 1993 BRAC lists. The



school was removed from both BRAC lists by the Secretary of Defense (Akeman, 1994). The decision to remove DLI was made in the final hours prior to submission of the lists to the President. It can be reasonably assumed that the decision to remove DLI from the closure list was the result of intensive consultant study, lobbying and political gamesmanship.

#### **E. SUMMARY**

The City proposal promotes several interesting concepts for providing BASEOPS services. There are five specific characteristics that are unique to this proposal: cost savings, innovation, risk in implementation, use of Government oversight and the percentage of BASEOPS actually provided by the City proposal. Cost savings is the most prominent of the five attributes, simply because this was the overriding reason the BRAC Commission slated DLI for closure, excessive cost. As each of these characteristics play an integral part within the proposal, they will be used as evaluation criteria in the analysis to decide whether or not the City Proposal is the best course of action to implement in preventing the closure of DLI in the future.

## V. ANALYSIS

### A. METHODOLOGY

In determining whether or not the City of Monterey proposal is a viable alternative for BASEOPS functions, it is necessary to compare it to other possible methods. Currently, BASEOPS support can be provided to DLI via three separate procedures, Fixed-Price Contracts, Cost-Reimbursable Contracts, and ISSAs or any combination of the three.

The standard Army decision making or Staff Study process will be used to provide a recommendation on whether to accept the City of Monterey proposal as offered, reject it or to accept another course of action. The Staff Study is a 10 step method that uses the following format:

- Define the Problem (Problem Statement)
- Provide Background on the problem
- List facts bearing on the problem
- List assumptions bearing on the problem
- Develop Courses of Action (COA)
- Develop Screening Criteria and Evaluation Criteria
- Conduct analysis based on the Evaluation Criteria
- Compare the COA based on the analysis
- State a conclusion from the analysis and comparison
- Make a recommendation

#### 1. Problem Statement

The problem statement is simply a concise explanation of the problem at hand, stated as a task in infinitive or question form. The problem statement for this study is: *To determine the best method of providing BASEOPS support to DLI and thus prevent its closure from BRAC 95.*

#### 2. Background

This area of the Staff Study process provides a lead in to the study. It briefly states why the problem exists. For the purpose of this research the previous chapters provide sufficient background information.

### 3. Facts bearing on the Problem

These are statements of undeniable truth that can influence the problem of its solution. The facts must be correct, verifiable and stated clearly. Facts can contain references, mathematical formulas or tabular data. The facts bearing on the problem are as follows:

- DLI currently receives BASEOPS support from NPS via an ISSA.
- The cost of BASEOPS support provided by the ISSA is \$7,617,232.
- The ISSA covers all BASEOPS support services.
- The City proposal only covers 45 percent of total required BASEOPS services.
- DLI had been initially chosen by the Army for closure and included on the 91 and 93 BRAC lists submitted to DOD.
- DLI was not included on the Army's 95 BRAC list.
- DLI closure will have a significant economic impact on the Monterey County MSA.
- BRAC Commission stated that DLI Support Costs were excessive for the installation size.
- Current BASEOPS Costs exceed \$10 Million.
- The Army basing strategy requires that the DLI mission be relocated to Fort Huachuca, Arizona.
- Leasing the Presidio of Monterey to the City is legal under 10 USC 2667.
- Fixed-Price Contracts require less oversight than cost-reimbursable contracts.
- Cost-reimbursable contracts require extensive Government oversight.
- A real estate transaction requires no oversight by law.

#### 4. Assumptions

In this section it is necessary to identify any assumption necessary for a logical discussion of the problem. Assumptions are statements that may or may not be true; however available data indicate that they are true or may be true some time in the future. A valid assumption would be a fact if current data could verify it. The assumptions bearing on the problem are as follows:

- The City of Monterey initiated the proposal to prevent the closure of DLI by the BRAC Commission.
- The City proposal will receive further consideration by the Department of the Army than is required by law.
- Cost savings is the major concern of the Army and the BRAC Commission.
- DLI will be at risk in any future BRAC-type evaluation if BASEOPS supports costs continue to exceed \$9 million.
- By changing the proposal to a real estate transaction the City wishes to avoid Government oversight.
- Acceptance of the proposal by DOD will prevent future closure of DLI and allow the City to reduce the economic impact of Fort Ord's closure.
- A cost-reimbursable contract could exceed \$4 million due to MCA project management.
- Government oversight keeps contract costs under control, inherently reduces final contract costs and helps control risk.
- An ISSA may provide the same or greater cost savings than the City Proposal.

## **5. Courses of Action (COA)**

These are the alternatives, options or feasible solutions to the problem. If a COA is not self-explanatory a brief description of what the COA consists of must be provided. The proposed courses of action reflect only those options considered by the City of Monterey for its proposal (e.g. Firm-Fixed-Price Contract or Lease-Lease Back) and those options currently used by DLI for BASEOPS services (e.g. Cost-Reimbursable Contracts or ISSAs). Different variations of Fixed-Price Contracts such as Fixed-Price Incentive Firm or Award Fee will not be evaluated as they were not initially or subsequently proposed by the City of Monterey. The COA are as follows:

**COA 1** - Accept the City proposal using a Fixed-Price Contract.

**COA 2** - Accept the City proposal using a Cost-Reimbursable Contract.

**COA 3** - Accept the City proposal using the Lease-Lease Back agreement.

**COA 4** - Conduct BASEOPS support under an ISSA between NPS and DLI.

**COA 5** - Continue normal BASEOPS support as evaluated by the BRAC Commission.

## **6. Develop Criteria**

Within this section of the process it is necessary to list and describe the criteria used to judge the COA. The criteria serve as "yardsticks" against which each COA is measured. The COA are not evaluated against each other, they are measured against the criteria. Each of the criteria used must relate to the facts and assumptions bearing on the problem. There are two types of criteria used in this phase of the process: Screening Criteria and Evaluation Criteria.

Screening Criteria are those standards that a COA must meet

to be an acceptable, viable COA. Based solely on this criteria, COAs are accepted or rejected. Those accepted are further evaluated; those rejected are deleted from consideration. The Screening Criterion is as follows:

*Any course of action that provides zero cost savings as compared to current DLI BASEOPS costs.*

Application of this screening criteria caused COA 5 to fall out of consideration.

Evaluation Criteria are those standards that are used to evaluate, measure and rank order each COA during the analysis and comparison phases. It is necessary to use issues that will determine the quality of each COA, define how the COA will be measured against each criterion and specify the preferred state for each criterion. For example, cost may be defined as the total cost of an item to include research, development and production in dollars. The preferred state being that less or lower cost is better. Another example might be: cost is the manufacturer's suggested retail price. Again, the preferred state is less or lower cost is better or an advantage. Conversely, the higher cost would be considered as a disadvantage causing a COA to be evaluated low against the criterion.

Evaluation criteria are normally analyzed in their raw form and in a weighted form. The results are then presented in a tabular decision matrix. In weighting criteria an explanation is provided on how each criterion compares to each of the other criterion (e.g. Cost is greater than risk but risk is equal to Government oversight). Pursuant to the weighting explanation, each criterion is given a numerical value that is then multiplied by its raw score to provide its numerical ranking against all evaluation criteria. It must also be specified whether the larger

numerical total is better or a smaller numerical total is better for proper interpretation of the decision matrix. For the purpose of this study COAs will be evaluated in a raw and weighted form; in both formats the lower numerical score will determine the best COA -- lower is better. The evaluation criteria are:

Cost Savings - This is defined as any savings achieved from the Government estimated BASEOPS cost of \$9,232,852 plus an additional \$1,000,000 to cover the BASEOPS cost of the POM annex. This provides a total BASEOPS cost of \$10,232,852 as the base cost. The mean cost savings within the four remaining courses of action is \$1,196,669. The mean cost savings was determined by summation of the cost savings of the four remaining COAs (\$4,786,672) and dividing by the number of COAs evaluated (four). Any cost savings for BASEOPS that is equal or greater than the mean is an advantage. Any total cost savings for BASEOPS below the mean is a disadvantage.

Government Oversight - This is defined as any Defense Contract Audit Agency (DCAA) audit, contract administration activities, requirement for cost and pricing data or actual Government performance of BASEOPS functions. Government oversight is an advantage, little or no Government oversight is a disadvantage. Government oversight is considered an advantage because of the assumption that it will provide a lower final cost and control risk. This criterion is somewhat subjective in nature.

Risk - This is defined as the possibility of not meeting expected value, losing value or failing. This criterion is subjective in nature. The greater the risk is a disadvantage, the lower the risk is an advantage (e.g. the higher the rated value the greater the risk and the lower the rated value the lower the risk).

Percentage of Total BASEOPS furnished - This is defined as the amount of total BASEOPS functions performed based on the

BASEOPS functions listed in Table 6. The mean percentage of BASEOPS functions provided among all four courses of action is 51.25 percent. Any amount equal to or greater than the mean is an advantage and any amount less than the mean is a disadvantage.

Innovation - This is defined as the use of a new product, service or method of service that has not been used before and promises greater productivity or cost savings. This criterion is also subjective in nature. Innovation is an advantage, while no innovation, common practice or method is a disadvantage.

## **7. Analysis**

For each COA the advantages and disadvantages are listed as they result from testing each COA against the stated evaluation criteria. COAs are not compared in this section. The analysis for all four COAs are as follows:

A. COA 1 - Accept the City proposal using a Fixed-Price Contract.

(1) Advantages: Low Risk.

(2) Disadvantages: Cost Savings, (\$861,571)

Low Oversight, Percentage of BASEOPS provided (45%) and No Innovation.

B. COA 2 - Accept the City proposal using a Cost-Reimbursable Contract.

(1) Advantages: Oversight

(2) Disadvantages: Cost Savings (\$447,910), High Risk, Percentage of BASEOPS provided (45%), and No Innovation.

C. COA 3 - Accept the City proposal using the Lease-Lease Back agreement.

(1) Advantages: Innovation.

(2) Disadvantages: Cost Savings (\$861,571), Percentage of BASEOPS provided (45%), High Risk,



No Oversight.

D. COA 4 - Conduct BASEOPS support under an ISSA between NPS and DLI.

(1) Advantages: Cost Savings (\$2,615,620), Oversight, Low Risk, Percentage of BASEOPS provided (70%).

(2) Disadvantages: No Innovation.

### **8. Comparison**

In the comparison phase each COA evaluation is compared to all other COA evaluations. A narrative comparison, based on evaluation criteria is provided and supported by a numerical decision matrix. A determination is made, based on the comparison, as to which COA best satisfies all criteria and could subsequently solve the problem identified in the problem statement. The comparison of all four COAs is as follows:

COA 1 (Fixed-Price Contract) was rated the option with the lowest risk as FFP agreements are usually stable and enforceable contracts. In cost savings it tied for second with COA 3 with a total of \$861,571. This assumes that the Army would pay the initial \$3,586,339 to the City for services under the FFP contract and continue to pay contractors \$5,784,942 for the services not provided by the City Proposal. In the area of oversight it was rated third, as the FFP contract would have limited contract administration requirements and limited audit requirements. However, the submission of cost and pricing data, would be required due to the total cost of the contract. The percentage of BASEOPS provided was 45 percent and was rated third of four, which tied with COA 2 and COA 3. In the area of innovation this COA was rated third as FFP contracts are common to Government contracting.

COA 2 (Cost-Reimbursable Contract) was rated third in risk as this contract could range in total cost from \$2-4 million

depending on the number of MCA projects, making actual cost hard to determine. In cost savings it came in last with a total savings of \$447,910. In the area of oversight it was rated second. The cost-reimbursable contract requires submission of certified cost and pricing data, and extensive DCAA audits and contract administration functions. This course of action tied with COA 1 and COA 3 in percentage of BASEOPS provided with 45 percent. In the area of innovation it was rated second due to the Government's ability to reward efficiencies in the City's management through CPIF or CPAF type contracts. The cost type contract can be tailored to meet the changing annual requirements for BASEOPS.

COA 3 (Lease-Lease Back) tied with COA 1 for second in cost savings achieving a total savings of \$861,571. It was rated last or the course of action with the most risk. The risk rating is the result of City officials citing numerous details within the proposal that have yet to be negotiated. One such example cited is how the seniority of additional personnel hired from DLI into the City public works division will transfer; second, what type of jurisdictional arrangement can be agreed to for police patrols, law enforcement, crime prevention and the unique security concerns for classified materials at DLI. The Lease-Lease Back option was also rated last in oversight. Since this would be a real estate transaction rather than a procurement transaction, there would be no Government oversight other than DLI staff submitting work orders. The real estate transaction would void the requirements for submission of cost and pricing data, approved estimating systems, DCAA audits, contract administration and approval of progress payments. This would give the Government little recourse in the event of substandard service. However, the Government could withhold rent payments if services were determined to be substandard, assuming rent is paid on a monthly basis. It tied for third with COA 1 and COA 2 in the

percentage of BASEOPS support, by providing 45 percent. However, this COA was rated first in innovation.

COA 4 (ISSA) is the recommended course of action and was rated first in cost savings with a total reduction of \$2,615,620. It was also rated first in oversight as the Navy Public Works Department will provide the services. The ISSA was rated as the second lowest risk COA among the four, surpassed only by the FFP contract. It was rated first in the percentage of BASEOPS provided, by furnishing 70 percent of required services. In the area of innovation this COA was rated last since the ISSA is a common practice within the DOD.

Table 11 provides the numerical evaluation in support of the comparison section. For example, in the area of cost savings COA 4 was rated first and received a numerical rating of one, whereas COA 1 and COA 3 tied and received numerical ratings of 2.5. COA 2 was rated last in cost savings and was provided a numerical value of four. The smaller numerical value represents the COA that best satisfies the criteria -- lower is better.

Criteria	COA 1	COA 2	COA 3	COA 4
Cost Savings	2.5	4	2.5	1
Percentage of BASEOPS	3	3	3	1
Oversight	3	2	4	1
Innovation	3	2	1	4
Risk	1	3	4	2
<b>TOTAL</b>	12.5	14	14.5	9

**Table 11. Relative Value Decision Matrix**

### **9. Weighted Evaluation**

To expand the analysis of the problem statement and validate the outcome of the raw data decision matrix the evaluation criteria were weighted in the following manner.

- Cost Savings is greater than Percentage of BASEOPS services provided

- Cost Savings is greater than Government oversight, risk and innovation
- Percentage of BASEOPS services provided is greater than Government oversight, risk and innovation
- Government Oversight is greater than Risk and innovation
- Innovation is greater than Risk

Cost Savings is the most important of the evaluation criteria. Cost was the primary reason the BRAC Commission recommended the closure of DLI. Cost control has become the primary factor in defense downsizing in the current era of constrained budget appropriations and a reduced budget for the DOD.

Percentage of BASEOPS services provided is the second most important evaluation criterion. For each COA the percentage of services provided is an indirect result of cost savings. Regardless of cost savings in a COA, if only 50 percent of services are provided as a result of the savings, the cost to the Government to provide the remaining services would offset any initial operating budget reduction.

Government oversight is rated third in importance. Oversight can help attain projected cost savings through audits, submission of cost and pricing data, contract administration and involvement of Government officials in administration of the actual work. Risk is also mitigated with Government oversight as problems may be foreseen prior to their occurrence and solutions can be implemented before unexpected incidents become unmanageable.

Innovation is the fourth most important criteria. Although innovation in a COA can be advantageous and can provide significant cost savings, certain innovations may be operationally impossible. Additionally, current legislation may make any revolutionary proposal which could solve the problem, illegal. This could be a more important criterion should legislation be changed in the future.

Risk is the lowest rated criterion. This is the least important concern. Risk can usually be controlled and monitored within BASEOPS support contracts. Simply put services are either provided at a defined level or they are not provided at a defined level.

Table 12 provides the numerical evaluation based on the weighting of the criteria. The numerical weight which is in parenthesis is listed next to the criterion. The value for each criterion in each COA is determined by multiplying the weighted value of the criterion (in parenthesis) by the original numerical value given in Table 11. For example, in Table 11, COA 1 received a rating of 2.5. This rating is now multiplied by two, the weighting factor for cost savings, resulting in a weighted value for cost savings for COA 1, in Table 12, of five. Again, the lower numerical value represents the COA that best satisfies the criteria -- lower is better.

Criteria	COA 1	COA 2	COA 3	COA 4
Cost Savings (2)	5	8	5	2
Percentage of BASEOPS (3)	9	9	9	3
Oversight (4)	12	8	16	4
Innovation (5)	15	10	5	20
Risk (6)	6	18	24	12
<b>TOTAL</b>	<b>47</b>	<b>53</b>	<b>59</b>	<b>41</b>

**Table 12. Weighted Value Decision Matrix**

The weighted value analysis provides the same results as the relative value analysis. COA 4, with a weighted value of 41, best satisfies the evaluation criteria. A sensitivity analysis was conducted using the Military Application Program Package (MAPP) statistical software. The sensitivity test is used to determine if the weighted values given to each criterion cause any one criterion to statistically invalidate the decision matrix.

A sensitivity rating of 90 percent or higher, using the MAPP program, defines each criterion as non-sensitive to any other criterion. A sensitivity rating of 93.4 percent was calculated using the weighting values in Table 12.

To further validate the evaluation, the weighting scheme was adjusted so that each criterion was weighted as the most important factor. For example, in Table 13, percentage of BASEOPS is weighted as the most important criterion instead of cost savings. The remainder of the weighted values remain the same to insure the sensitivity rating of the complete matrix. In the terms of a scientific test the base data listed in Table 11 remains constant, but the weighting value or catalyst has changed in each subsequent table.

Criteria	COA 1	COA 2	COA 3	COA 4
Cost Savings (6)	15	24	15	6
Percentage of BASEOPS (2)	6	6	8	2
Oversight (3)	9	6	12	3
Innovation (4)	12	8	4	16
Risk (5)	5	15	20	10
<b>TOTAL</b>	<b>47</b>	<b>59</b>	<b>59</b>	<b>37</b>

**Table 13. Weighted Value Decision Matrix (Percentage of BASEOPS Most Important Criterion)**

Criteria	COA 1	COA 2	COA 3	COA 4
Cost Savings (5)	12.5	20	12.5	5
Percentage of BASEOPS (6)	18	18	18	6
Oversight (2)	6	4	8	2
Innovation (3)	9	6	3	12
Risk (4)	4	12	16	8
<b>TOTAL</b>	<b>49.5</b>	<b>60</b>	<b>57.5</b>	<b>33</b>

**Table 14. Weighted Value Decision Matrix (Oversight as Most Important Criterion)**

Criteria	COA 1	COA 2	COA 3	COA 4
Cost Savings (4)	10	16	10	4
Percentage of BASEOPS (5)	15	15	15	5
Oversight (6)	18	12	24	6
Innovation (2)	6	4	2	8
Risk (3)	3	9	13	6
<b>TOTAL</b>	<b>52</b>	<b>56</b>	<b>64</b>	<b>29</b>

**Table 15. Weighted Value Decision Matrix (Innovation as Most Important Criterion)**

Criteria	COA 1	COA 2	COA 3	COA 4
Cost Savings (3)	7.5	12	7.5	3
Percentage of BASEOPS (4)	12	12	12	4
Oversight (5)	15	10	20	5
Innovation (6)	18	12	6	24
Risk (2)	2	6	8	4
<b>TOTAL</b>	<b>54.5</b>	<b>52</b>	<b>53.5</b>	<b>40</b>

**Table 16. Weighted Value Decision Matrix (Risk as Most Important Criterion)**

In each of the weighted decision matrices, COA 4 achieves the lowest value regardless of the weighted value changes. These results further validate, the choice of evaluation criteria, the initial weighting scheme and the recommended solution.

## **B. CONCLUSION**

COA 4 conducting BASEOPS support under an ISSA between NPS and DLI is the best way to provide support to DLI and prevent its future closure. This alternative provided the greatest cost savings with a total reduction of \$2,615,620. The oversight provided by the Navy Public Works department will insure that the projected cost savings are realized. It was also rated first in

oversight as the Navy Public Works Department will actually provide or contract for the services. The ISSA was rated as the second lowest risk COA among the four, surpassed only by the FFP contract. It was rated first in the percentage of BASEOPS provided, by furnishing 70 percent of required services, thus reducing the Government's cost to provide the remainder of needed services. COA 4 is undoubtedly the option that best meets all evaluation criteria.





## **VI. CONCLUSION**

### **A. RECOMMENDATIONS**

It is apparent that the BRAC process has dramatically affected the Monterey County area. The possible closure of DLI and eventually NPS would devastate the local economy. The City of Monterey Proposal has merit and is a unique solution to DLI's BASEOPS problem. The idea that a local municipality could provide standard public works services to an installation, depot or national guard armory at cost is one that can be copied by cities in similar situations. However, the Monterey proposal falls short in many areas. It is clear that greater economies of scale and cost savings can be achieved through ISSAs between the NPS and DLI. The ISSA will reduce DLI support costs and should prevent closure of DLI in future BRAC type evaluations. If the City of Monterey is interested in pursuing the proposal, they should expand their proposal to provide 100 percent of BASEOPS services to both NPS and DLI.

### **B. ANSWERING THE RESEARCH QUESTIONS**

1. *What does the City of Monterey Proposal offer to the Department of Defense in cost savings for operating and maintaining the Presidio of Monterey and the Defense Language Institute?*

The proposal offers the DOD approximately \$.9 to 1.0 million in cost savings for the operation and maintenance of DLI at the POM and the POM Annex at the old Fort Ord installation.

2. *What is the current budget allocated for the operation of the Presidio of Monterey and the Defense Language Institute?*

Approximately \$10.5 million was allocated for BASEOPS support services prior to the BRAC 93 evaluation of DLI. It was this high cost for support services coupled with other inefficiencies that placed DLI at risk of closure.

3. *Why are the Presidio of Monterey and the Defense Language Institute at risk from the Base Realignment and Closure Commission?*

DLI was at risk due to high BASEOPS support costs for an installation of its size. Additionally, the high cost of living in the Monterey County MSA was cited by the Commission as another prime reason to close DLI, move its mission to Fort Huachuca and contract with a state university for language training.

4. *What are the current costs incurred by the Presidio of Monterey and the Defense Language Institute?*

As of 4 May 1995 BASEOPS support costs for DLI are estimated at \$7.6 million.

5. *Who provided base support operations for POM and DLI prior to the BRAC evaluation?*

DLI received BASEOPS support functions from Fort Ord and Forces Command via a memorandum of agreement. However, when Fort Ord was designated for closure by the BRAC, DLI was forced to contract out services with civilian contractors.

6. *Are there qualities of the City of Monterey that provide DLI a unique environment in which to operate?*

The City of Monterey is the home of the Monterey Institute for International Studies, The Naval Postgraduate School, The Monterey College of Law and California State University at Monterey Bay. The Institute for International Studies and the College of Law routinely collaborate with DLI faculty on numerous international relations and legal issues. It is anticipated that

the California State University will engage in similar cooperative research and study once the University is operational.

*7. What economies of scale/economies can the City of Monterey provide to cut the cost of operating POM and DLI?*

Economies of scale are defined as the reduction of the costs of producing a good or service due to increasing the size of the producing entity and the share of the total market for the good or service produced. The City intends to increase the land area which it maintains by adding the land which constitutes the POM to existing City Public Works responsibilities. This will be done with only minor increases in the City Public Works and administration staff. This action will reduce the cost per square foot of maintaining land as existing resources are now distributed over larger quantities of land.

*8. Does the proposal provide either DOD or the City of Monterey additional revenues to offset costs? If so, how will the revenue be used?*

The proposal does not, by design, provide profit for the City of Monterey. However, due to the nature of BASEOPS support services and MCA construction projects, it is possible that excess funds would remain unused at the end of the fiscal year. It is the intention of the City to return any money, to DOD, that is in excess of what it costs the City to provide the services. The City Council definitively stated that the City of Monterey would enter into this agreement without profit or detriment to the City.

*9. What type of leasing agreements and contracts could be used as part of this proposal?*

The Assistant City manager insists that the lease will be a standard real estate lease transaction. However, it must be noted that several special situations must be negotiated between lessor

and lessee prior to completion of the lease as noted in Chapter IV. Consequently, the lease may start as a standard real estate transaction but will be significantly altered and customized by the City and DOD. In particular DOD always reserves the right to terminate any agreement for convenience, therefore a provision for that eventuality would probably be inserted into the lease. Termination could prove costly for DOD and the City.

*10. What type of pricing strategy will the City of Monterey use in contracting to provide services to POM and DLI?*

The City intends to use incremental pricing. This method involves dropping all fixed costs involved with providing BASEOPS services and charging only those variable costs and material costs incurred in providing the services. An example of this strategy is explained in Chapter four, Section B.3.

#### **C. AREAS FOR FUTURE STUDY**

The City of Monterey proposal provides a unique idea in installation administration. However, the proposal was riddled with generalities and areas that were designed to be negotiated prior to acceptance. Areas for further study would include: developing a cost analysis of assuming 100 percent of BASEOPS for DLI and NPS; developing a process flow for requesting major repair and maintenance of facilities and housing units; recommending levels of additional Government oversight if a lease agreement were approved; and finally, applying this type of proposal to another similar installation in a different city or town.

#### **D. CONCLUSION**

Although the City's proposal is unique, it fails to provide the necessary amount of BASEOPS services required at DLI. The use of an ISSA between NPS and DLI provides the largest percentage of

services at the greatest cost savings. This combination, services and cost, was the prime reason the BRAC Commission recommended DLI for closure. The conduct of this study has proven that the use of an ISSA with NPS would eliminate the excessive cost of operating DLI and protect it from serious consideration in future BRAC evaluations.



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